BOMBARDIER

BOMBARDIER
AEROSPACE

BOMBARDIER
RECREATIONAL PRODUCTS

BOMBARDIER
TRANSPORTATION

BOMBARDIER
SERVICES

BOMBARDIER
CAPITAL

ANNUAL REPORT

Year ended

January 31, 1998

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BOMBARDIER

In January 1998, Bombardier adopted a new visual identity. Designed with continuity and future development in mind, Bombardier's new corporate identity reflects its 50-year-plus history while highlighting its main areas of operation and expertise:
aerospace,
recreational products,
transportation,
services and
financial and
real estate services.

The new logos of these core businesses appear on the cover page of this report.

All amounts mentioned in this report are in Canadian dollars, unless otherwise stated.

Un exemplaire français
vous sera expédié
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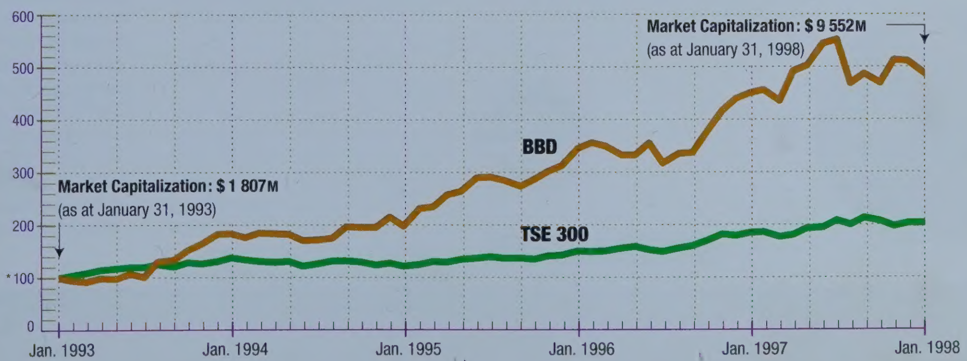
au Service des relations publiques
Bombardier Inc.
800, boul. René-Lévesque Ouest
Montréal (Québec)
H3B 1Y8

(millions of Canadian dollars, except per share amounts)

For the years ended January 31	1998	1997
Revenues	**$ 8 508.9**	$ 7 975.7
Income before income taxes	**$ 627.2**	$ 606.3
Income taxes	**$ 207.0**	$ 200.1
Net income	**$ 420.2**	$ 406.2
Earnings per share	**$ 1.18**	$ 1.18
Dividend per common share:		
Class A	**$ 0.30000**	$ 0.20000
Class B	**$ 0.30625**	$ 0.20625

As at January 31	1998	1997
Total assets	**$ 10 575.2**	$ 7 950.3
Shareholders' equity	**$ 2 889.3**	$ 2 212.6
Additions to fixed assets	**$ 262.6**	$ 232.4
Backlog	**$ 18 104.1**	$ 10 411.4
Book value per common share	**$ 7.14**	$ 6.01
Number of common shares	**339 459 224**	337 638 037
Shareholders of record	**10 781**	11 541

STOCK PERFORMANCE OF BOMBARDIER INC.
January 31, 1993 to January 31, 1998



*Index: Closing price as at January 31,1993=100

Activities

Bombardier Aerospace

Management offices: Dorval (Québec)

Canadair (Canada) •Management offices: Dorval (Québec) •Production facilities: Saint-Laurent and Dorval (Québec) •Main products: widebody Challenger* and ultra long-range Bombardier Global Express* business aircraft; Canadair 415* amphibious multi-mission aircraft; Canadair Regional Jet* airliner; airframe components; aircraft interior completion; commercial and corporate pilot and maintenance training

Learjet (United States) •Management offices: Wichita (Kansas) •Production facilities: Wichita (Kansas); Tucson (Arizona) •Main products: the line of Learjet* business aircraft including the light Learjet 31A, the super-light Learjet 45, and the midsize Learjet 60 with transcontinental range; aircraft maintenance, painting and interior completion

de Havilland (Canada) •Management offices: Downsview (Ontario) •Production facilities: Downsview (Ontario) •Main products: family of Dash 8* regional turboprop aircraft; airframe components; final assembly of Global Express business jet; aircraft painting and interior completion

Shorts (United Kingdom) •Management offices: Belfast (Northern Ireland) •Production facilities: in the Belfast area (Northern Ireland) •Main products: aerostructures; engine nacelles and nacelle components

Shorts Missile Systems Limited (United Kingdom) •Management offices: Belfast (Northern Ireland) •Production facilities: Belfast (Northern Ireland) •Main products: Starburst* and Starstreak* close-air defence missile systems; Samantha* and Clara* command and control systems; Aspic* automatic firing system

Business JetSolutions (United States) •Management offices: Dallas (Texas) •Tailor-made business transportation products and services through fractional ownership programs and executive charter operations

International Nacelle Systems EEIG (France, United Kingdom) •Management offices: Paris (France) •Services: marketing of aircraft engine nacelles

Société Internationale de Nacelles (France) •Management offices: Toulouse •Production facilities: Toulouse •Activity: integration of nacelles with aircraft engines

Bombardier Recreational Products

Management offices: Montréal (Québec)

Snowmobiles and all-terrain vehicles (ATV) (Canada, Finland, United States) •Management offices: Valcourt (Québec) •Production facilities, snowmobiles: Valcourt (Québec); Rovaniemi (Finland) •Production facilities, ATV: Valcourt (Québec) •Main products: Ski-Doo* and Lynx* snowmobiles; all-terrain vehicles •Distribution services: Sherbrooke (Québec); Wausau (Wisconsin)

Marine Products (United States, Canada) •Management offices: Melbourne (Florida) •Production facilities: Valcourt (Québec); Benton (Illinois) •Main products: Sea-Doo* watercraft and Sea-Doo boats •Distribution services: Sherbrooke (Québec); Wausau (Wisconsin)

Rotax (Austria) •Management offices: Gunskirchen •Production facilities: Gunskirchen •Main products: Rotax* engines for Bombardier snowmobiles, all-terrain vehicles, watercraft and boats, and for motorcycles, scooters, small and ultra-light aircraft

Neighborhood Vehicles (Canada) •Management offices: Sherbrooke (Québec) •Production facilities: Sherbrooke (Québec) •Main product: neighborhood vehicles (NV*)

Bombardier Services

Management offices: Montréal (Québec)

Defence Services (Canada) •Management offices: Mirabel (Québec) •Main services and products: technical support for military aircraft; missionizing of aircraft; aviation training; Guardian* (CL-327*) unmanned aerial surveillance system; CL-352* Landing Period Designator; painting and interior completion of the Canadair Regional Jet aircraft

Defence Services (United Kingdom) •Management offices: Christchurch (Dorset) •Main services and products: aircraft technical and support services for military customers including facilities management, aircraft maintenance, flying training and logistic support including turnkey operations; simulation and training equipment; aerial targets

Commercial Aviation Services (United States) •Management offices: Chicago (Illinois) •Maintenance facilities: Bridgeport (West Virginia) •Main services: aircraft technical and support services for airline customers, including aircraft maintenance, spare parts logistics, component repair and overhaul

Utility Vehicles (Canada) •Management offices: Granby (Québec) •Production facilities: Granby (Québec) •Main services and products: snowgrooming services; tracked vehicles for the maintenance of alpine ski hills and snowmobile and cross country ski trails; tracked vehicles for municipal work; tracked vehicles for specialized utility work and transportation on difficult terrain

BOMBARDIER

Fields of Activity
Aerospace
Recreational Products
Transportation
Services
Financial and Real Estate Services

Production Facilities
Canada
United States
Mexico
Austria
Belgium
Czech Republic
Finland
France
Germany
Switzerland
United Kingdom

Number of Employees
47,000

Markets
On the five continents, with high concentration in North America and Europe.
More than 88% of revenues generated in markets outside Canada.

Corporate Office
800 René-Lévesque Blvd. West
Montréal, Québec Canada H3B 1Y8
Telephone: 1 (514) 861-9481
Fax: 1 (514) 861-7053
Internet: www.bombardier.com

Divisions and subsidiaries addresses are available on pages 70 and 71.

Bombardier Transportation

Management offices: Saint-Bruno (Québec)
Other offices: Brussels (Belgium), Hong Kong

North American operations

Mass Transit - North America (Canada)
•Management offices: Saint-Bruno (Québec) •Production facilities: La Pocatière (Québec); Kingston and Thunder Bay (Ontario) •Main products: rapid transit cars; light rail vehicles; self-propelled electric and diesel commuter cars; single and bi-level commuter cars; intercity train cars; intercity high speed trains; the LRC* trains; monorail cars

Auburn (United States)
•Management offices: Auburn (New York) •Production facilities: Auburn (New York) •Main activities: engine block machining; component manufacturing for Bombardier Transportation and Bombardier Aerospace

Bombardier Transit Corporation (United States)
•Management offices: New York (New York) •Other offices: Bensalem (Pennsylvania); Washington (DC); Sacramento (California); Orlando (Florida) •Activities: marketing of mass transit vehicles

Bombardier Mass Transit Corporation (United States)
•Management offices: Plattsburgh (New York) •Production facilities: Barre (Vermont); Plattsburgh (New York) •Activities: component manufacturing, assembly and testing of mass transit vehicles

Transit Systems (Canada)
•Management offices: Kingston (Ontario) •Other offices: Orlando (Florida); Beijing (China); Djakarta (Indonesia); Kuala Lumpur (Malaysia); Taipei (Taiwan); Bangkok (Thailand) •Main products: automated light rail transit systems; monorail and automated transportation systems

Concarril (Mexico)
•Management offices: México (D.F.) •Production facilities: Sahagún (Hidalgo) •Main products: rapid transit cars; light rail vehicles

European operations

BN (Belgium)
•Management offices: Bruges •Production facilities: Bruges, Manage •Main products: passenger rail cars; single and bi-level self-propelled rail cars; subway cars; light rail vehicles; trams; TGV† high-speed train equipment; electric and diesel-electric locomotives

Prorail (United Kingdom)
•Management offices: Wakefield (England) •Production facilities: Wakefield (England) •Main products: light rail vehicles; complete refurbishment projects; bogies; body structures for locomotives and passenger rolling stock; railway wagons; road tankers

BWS (Austria)
•Management offices: Vienna •Production facilities: Vienna •Main products: light rail vehicles (Street-Tram; City-Tram; City-Metro; Tram-Train)

ANF (France)
•Management offices: Crespin •Production facilities: Crespin •Main products: tramways; tramways on tires (GLT*); metros; automatic metros; light regional railcars; single and bi-level electric motorcoaches; turbotrains; TGV high-speed train equipment; bogies

Talbot (Germany)
•Management offices: Aachen •Production facilities: Aachen •Main products: single and bi-level rail passenger coaches; diesel and electric multiple units; bogies; freight wagons; self-propelled freight units

DWA (Germany, Switzerland, Czech Republic)
•Management offices: Berlin •Production facilities: Bautzen, Berlin, Görlitz, Halle, Niesky, Vetschau (Germany); Villeneuve (Switzerland); Ceská Lípa (Czech Republic) •Main products: light rail vehicles; single and bi-level rail passenger coaches; diesel and electric multiple units; freight wagons; bogies

† Registered trademark of the Société Nationale des Chemins de fer Français

Bombardier Capital

Management offices: Colchester (Vermont)

Bombardier Capital Inc. (United States)
•Management offices: Colchester (Vermont) •Services: inventory financing/servicing in a broad range of industries; aircraft, commercial and industrial equipment financing and leasing; technology management, leasing, financing, and manufacturer/dealer communication services for users of computer and telecommunications equipment; retail financing of recreational products and manufactured housing •Sales offices: Atlanta (Georgia); Garden City (New York); Londonderry (New Hampshire); Jacksonville and Fort Lauderdale (Florida)

Bombardier Credit Receivables Corporation (United States)
•Management offices: Colchester (Vermont) •Services: inventory financing in a broad range of industries

BCI Finance Inc. (United States)
•Management offices: Colchester (Vermont) •Services: aircraft financing

Bombardier Capital Ltd. (Canada)
•Management offices: Valcourt (Québec) •Services: inventory financing/servicing in Canadian and international markets; industrial equipment financing and leasing; retail financing of recreational products •Sales offices: Brossard (Québec)

Bombardier Finance Inc. (Canada)
•Management offices: Calgary (Alberta) •Services: aircraft and industrial equipment leasing

Bombardier Capital International B.V. (Finland)
•Management offices: Rovaniemi •Services: inventory and other financing services in Scandinavian markets

Bombardier Capital International S.A. (France)
•Management offices: Paris •Services: inventory financing and other financial services in Europe

NorRail Inc. (United States)
•Management offices: Buffalo (Minnesota) •Services: rail car financing/servicing •Sales offices: Chicago (Illinois); Philadelphia (Pennsylvania); Kansas City (Missouri)

Bombardier Capital Mortgage Securitization Corporation (United States)
•Management offices: Colchester (Vermont) •Services: retail financing of manufactured housing

Bombardier Inc., Real Estate Services (Canada)
•Management offices: Saint-Laurent (Québec) •Mandate: development of Bombardier's real estate assets earmarked for new uses

Report to Shareholders

Bombardier's revenues increased to $8.5 billion in fiscal 1997-98, a 7% increase, and net income improved slightly compared to the previous year despite difficulties at Bombardier Recreational Products.

All other businesses, particularly Aerospace, improved their performance, offsetting the decline in Recreational Products' income before income taxes. Bombardier Recreational Products had made an exceptional contribution to the Corporation's profitability in recent years: for example, for the fiscal year ended January 31, 1997, it generated income before income taxes of $212.3 million, representing 35% of the income before income taxes for the Corporation as a whole.

Laurent Beaudoin, Chairman and Chief Executive Officer

Bombardier Aerospace made the leading contribution to net income during the past fiscal year, increasing its proportion of income before income taxes to 74% from 45% in the prior year on the strength of increased sales and a solid improvement in profit margin.

Once again, the benefits of our diversification into business segments with different market and investment cycles are clearly evident. This orientation enables us to maintain our growth while generating above average returns for shareholders.

Our prospects for the coming years remain excellent.

Backlog

At January 31, 1998, our order backlog was a record $18.1 billion, a 74% increase compared to the $10.4 billion backlog at the end of the previous year.

Bombardier Aerospace obtained 317 firm orders for aircraft during the year and achieved an order backlog of 406 aircraft as at January 31, 1998, compared to 267 at the end of the previous fiscal year. The dollar value of the order backlog stood at $10.1 billion.

Bombardier Transportation, while benefiting from the backlog of Deutsche Waggonbau AG, added the major 680-car, $1.25 billion order for the New York subway, to its backlog. This was the second time that Bombardier Transportation had won the largest share of a major order from New York City Transit. The order backlog stood at a record $6.5 billion at the end of the fiscal year, excluding the $2 billion order from Virgin Rail in the United Kingdom obtained early in the new fiscal year.

Bombardier Services also won the largest contract in its short history, when it obtained the green light from the Government of Canada to implement the flight training program for NATO pilots in Canada. As a result of this contract, $1.3 billion was added to its order backlog, which totalled $1.5 billion at the end of the year.

High Growth Objectives

Building on this solid foundation, we are confident of reaching the high growth objectives we have set for ourselves: doubling our revenues over a five-year period and increasing our pre-tax profit margin to 9%.

Ambitious as they are, based on our many strengths, our revenue and profit margin growth objectives can be achieved.

Increasing market share is a natural path to growth; this growth will be achieved in a greater measure through the many new products and services already developed, as well as through those under development, and which will be rolled out in the coming years.

Bombardier Aerospace will benefit in fiscal 1998-99 from initial deliveries of the Learjet 45 and Global Express business jets, two of the

four aircraft that we have launched over the past few years. Two new 70-seat regional aircraft will then be launched: the Dash 8 Series 400 twin turboprop in 1999 and the Canadair Regional Jet Series 700 in the year 2000.

In recent years, Bombardier Transportation has developed innovative technologies and products that are already resulting in strong market penetration. Initially designed for the German market, the new self-propelled TALENT* passenger rail cars are the subject of a first export contract to Norway. In addition, tilt train technology developed for the Northeast corridor of the United States has now been chosen for the self-propelled rail cars to be delivered to Virgin Rail in the United Kingdom.

Bombardier Recreational Products recently launched its first all-terrain vehicle, the Bombardier Traxter*, an addition to the family of products sold through our distribution networks. With the neighborhood electric vehicles (NV) we are moving into a completely new market, the potential of which has yet to be determined. The Rotax engine business is experiencing good growth through the development of new motors for scooters, motorcycles and ultra-light aircraft for various manufacturers.

Members of the senior management team, from left to right: Marie-Claire Simoneau, Jean Rivard, Jean-Louis Fontaine, Paul Larose, Yvan Allaire and Laurent Beaudoin

The development of services related to our products and other competencies is another promising avenue for growth. Some services are provided by our manufacturing groups; for example, Bombardier Aerospace for business aviation, and Bombardier Transportation for the maintenance of passenger rail cars. Other services have been regrouped under Bombardier Services; for example, maintenance of commercial aircraft operated by regional airlines, defence services and management of military flight training programs.

We also plan to achieve growth by expanding the range of financial services offered by Bombardier Capital to include: mortgage financing for manufactured housing, consumer loans for products purchased from dealers whose inventories we already finance, lease financing of freight rail cars, as well as computer and telecommunications equipment financing.

Geographic Expansion

Expansion into geographic markets where our presence is currently limited represents another source of potential growth. Indeed, although 88% of our revenues are now derived from outside Canada, less than 15% are generated from outside North America and Europe.

Since a large share of Bombardier's growth could result from expansion into these other areas of the world, we have decided to make this a priority and to devote additional efforts to it. We recently created Bombardier International for this purpose. Headed by a President and Chief Operating Officer, Bombardier International's mission is to accelerate our growth in emerging markets, and it has its own dedicated resources.

Our five pre-existing segments will continue to assume full responsibility for selling their products and services in these markets, but Bombardier International will play an active support role in seeking out new business opportunities in targeted regions of the world; for example, in certain Asian countries (including China), Eastern Europe and Latin America.

Finally, we will continue to explore opportunities for acquisitions and strategic alliances that would allow us to expand our present activities and reinforce our competitive position. We acquired Deutsche Waggonbau AG based in Berlin, Germany, at the end of the fiscal year, in

line with this objective. As a result, consolidated sales of approximately $900 million will be added to our revenues in fiscal 1998-99. This acquisition, which propels us into the number two rank worldwide in the passenger rail car sector, solidifies our position in Germany while opening the door to developing markets in Eastern Europe, Russia and other countries in the Commonwealth of Independent States.

Operational Excellence

Growth alone is not sufficient: it must also be accompanied by higher profitability. One of our primary objectives remains to increase our pre-tax profit margin to 9% of our operating revenues in each business. During the past fiscal year, we made significant margin gains in several segments, but we must do better still.

In the past fiscal year, Bombardier Aerospace surpassed our targeted 9% profit margin on revenues while the other businesses, with the exception of Bombardier Capital and Bombardier Recreational Products, improved on their performances of the previous year.

Clearly, the impact of the concrete steps that we have taken to improve our operations is being felt. These measures apply to materials management as well as to our engineering and manufacturing systems. In addition, we started the Six Sigma program, which represents, for Bombardier, a major and unprecedented effort to reduce costs and improve the quality of our processes throughout every aspect of our operations.

Already implemented at Bombardier Aerospace, Six Sigma has yielded positive results and will be strongly deployed in Bombardier Transportation and Bombardier Recreational Products this year. The resources committed to this project are being increased, and we are putting into place the mechanisms that will ensure its success.

All of our personnel fulfilling various roles in the Six Sigma program can count on my complete support and that of the Bombardier management team as well. The main elements of this innovative program and our expectations of what it can contribute are presented in greater detail on page 31 of this annual report, which I invite you to review in detail.

The challenges that we face are obviously stimulating; through our leadership and the commitment of all our personnel, I believe that we will once again be successful in meeting them. Indeed, I would like to thank all of our employees for their involvement and contribution to the results achieved during the past fiscal year.

I would also like to thank the members of our Board of Directors for their support throughout the year. I would especially acknowledge two members of our Board, Messrs. Philippe de Gaspé Beaubien and J. Michael G. Scott, who have contributed a great deal over the past several years. Regretfully, their terms as directors will not be renewed since they have reached the mandatory retirement age under the Corporation's policy.

On behalf of the Board of Directors,

Laurent Beaudoin, FCA

Chairman and Chief Executive Officer

Montréal, Canada
May 19, 1998

Social Responsibility

Social responsibility is an integral part of Bombardier's mission and it is applied within all of the communities in which the Corporation is present. However, the form of Bombardier's social involvement varies depending on the needs of the individual communities and on the initiatives taken by each business unit.

Echoing the work carried out by the J. Armand Bombardier Foundation and by local office and plant management, Bombardier employees are making their own contributions to the economic and social betterment of their fellow citizens.

The J. Armand Bombardier Foundation

Every year Bombardier Inc. transfers 3% of its income before income taxes to the endowment fund of the J. Armand Bombardier Foundation, a charitable organization overseen by a board of governors and chaired by Janine Bombardier, one of the founder's daughters. During the past year, the revenues from this endowment fund enabled the Foundation to contribute $5 million to regional and national organizations in Canada in the areas of education, health and the arts.

Education received a significant share of these contributions. Thanks to a donation from the Foundation, the University of Alberta's Faculté Saint-Jean and Faculty of Business will jointly create a bilingual professorship in entrepreneurial studies. This bachelor of commerce program will provide students with a unique opportunity to undertake post-secondary education in both official languages that will lead to an undergraduate degree in administration.

Short Brothers has forged close links with all levels of education in Northern Ireland. Within the framework of a science/technology project, pupils are getting a real insight into local industry and are benefiting from the experience of aerospace engineers.

The J. Armand Bombardier Foundation also made a major donation to the École Polytechnique de Montréal, enabling this school of engineering to appoint a professor of computer engineering for a five-year period. The professor's mission will be to contribute to the training of qualified personnel in the intelligent systems engineering discipline.

Other large contributions by the Foundation in the field of education during the year included a donation to Lower Canada College, a bilingual, co-educational, independent institution which is firmly rooted in Canada's cultural and historical heritage. These funds will enable the school to renovate its facilities and build a new library as well as new laboratories and classrooms.

The Foundation also actively contributed to social causes. Special attention was given to Moisson Montréal, the city's main food bank to which the Foundation contributed $500,000. The Foundation also supported organizations that care for the handicapped and the terminally ill.

The J. Armand Bombardier Museum

The J. Armand Bombardier Museum, which operates under the aegis of the Foundation, is Québec's only private museum of science and technology. During the year, the museum continued its work of showcasing the history of the snowmobile and the valuable contribution that it has made to our cultural and industrial heritage.

The Foundation also supports the Yvonne L. Bombardier Cultural Centre, which operates a library and art gallery to serve the local residents of Valcourt, Québec, and surrounding area.

The Contributions of Bombardier Companies and Employees

While the J. Armand Bombardier Foundation channels most of its social funding to regional and national organizations, Bombardier's local offices, plant management teams and employees tend to focus on the specific needs of their respective communities.

Continuing its efforts to benefit the Foundation for Research into Children's Diseases, Bombardier Recreational Products organized yet another edition of its personal watercraft ride. The event which attracted many Québec business people, was run along the entire length of the Saguenay River and raised over $100,000 for this foundation.

Bombardier Recreational Products also played a prominent role in the relief efforts of local communities during the ice storm that struck several regions of Québec in January 1998. In cooperation with the J. Armand Bombardier Foundation, Bombardier Recreational Products purchased more than a hundred generators and made them available to residents and municipalities; working together with the local municipality, it helped set up an emergency shelter and distribute free firewood to area residents and it also provided the people of Valcourt with hot meals and showers.

At the Canadair facility in Dorval, Québec, employees of Bombardier Aerospace donated more than $300,000 through their staff charity fund to buy hospital equipment, to provide nutritional assistance for schools in low-income neighborhoods and to support homes for the ill and the handicapped.

In Downsview, Ontario, 60 de Havilland employees took part in a bike-a-thon and raised over $45,000 for the Heart and Stroke Foundation. Employees from de Havilland also donated to the Red Cross to help victims of the ice storm.

Learjet continues to support the engineering program at Kansas State University, and Kansas Learjet employees expanded their volunteer efforts to support schools in high-risk neighborhoods, increased their contributions to the Kansas Food Bank and supported a local organization which builds and refurbishes homes for low income families.

In Belfast, Northern Ireland, the Shorts Foundation helps fund various Northern Ireland social and educational organizations. It also supports several community projects which are part of the apprentice training program at Short Brothers.

The staff of Shorts Missile Systems (SMS) did some construction work for a centre that provides special education to children with behavioral problems. SMS also regularly contributes to primary, college and university education programs, both in Northern Ireland and in other parts of the United Kingdom.

Throughout a three-week period, Bombardier Transportation provided free meals, groceries, firewood, batteries and fuel to employees affected by the ice storm. In New York State, the staff of Bombardier Transit Corporation donated to the American Red Cross and to the State of New York to help the relief effort for victims of the ice storm, which had also struck New England. Bombardier Transportation in Saint-Bruno, Québec, continued to support the Chantiers Jeunesse youth organization in its efforts to clear a walking trail system in the Eastern Townships.

Bombardier Services employees volunteered 900 hours of their time to the Royal Canadian Air Force Memorial Museum in Trenton, Ontario, to help restore the only complete Handley Page Halifax aircraft in existence which had been submerged 750 feet below the surface of a Norwegian lake for more than 50 years. This was the type of bomber aircraft that Canada used most frequently in the Second World War.

In Burlington, Vermont, Bombardier Capital has been providing vital funds to an establishment that offers a home-like setting to accomodate out-of-town families of patients being treated at local medical facilities.

In Jacksonville, Florida, Bombardier Capital's Community Involvement Association, run by employees, organizes food collections for disadvantaged families, Christmas gift donations for local children and food drives for victims of tornadoes in South Florida..

Environmental Protection

Concern for the environment is incorporated into Bombardier's mission statement. While Bombardier's manufacturing activities are believed to present low environmental risks, the Corporation places a high priority on the welfare of its employees and the communities in which it has operations. Accordingly, Bombardier adopted a policy in 1993 that reflects its corporate values and objectives in the area of environmental protection.

By 1994 Bombardier had introduced new practices, including periodical checks, to ensure that the policy was being applied. As a result, certain substances used in the production process have been completely eliminated or gradually replaced and state-of-the-art pollution-control equipment has been installed. In addition to the environmental benefits, savings in energy consumption have been achieved.

In respect of community values and in step with ISO 14001 environmental protection requirements, during the past fiscal year Bombardier has updated its environmental policy to include the concept of continuous improvement as well as to provide the training that is necessary to enable employees to implement and comply with the new standard.

Now that the ISO 14001 Environmental Management Standard is finalized and approved by a majority of ISO signatory countries, operations can be managed within the parameters laid out in the standard. The ISO 14001 standard will allow the environmental risk management component of Bombardier's manufacturing processes to move further ahead.

Bombardier's operation centres, several of which have earned the ISO 9001 certification for quality, quickly recognized the advantages of the new ISO 14001 standard and have already taken firm steps towards obtaining the new certification.

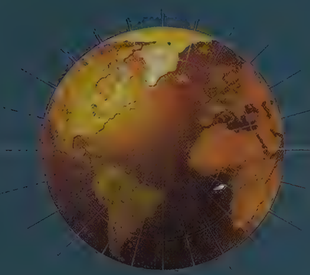
Two employees of a Shorts plant in Belfast are carrying out a check on the Effluent Treatment Plant.

The Shorts Missile Systems plants in Northern Ireland obtained ISO 14001 certification in 1997, an achievement that was soon duplicated by Bombardier facilities in Bruges, Belgium, and in Aachen, Germany at the beginning of 1998.

To help ensure the success of its overall ISO 14001 certification efforts, the Corporation has designed an environmental awareness education program for its employees. In addition to communicating senior management's environmental commitment, the program seeks to acquaint employees with the contents of Bombardier's environmental policy and explains the management initiatives Bombardier plans to introduce in order to achieve its environmental protection goals. The program also encourages each employee to make a personal commitment towards those goals.

The awareness program was put together during the year and is now being introduced to all plant employees whose responsibilities may potentially impact the environment.

Bombardier continues to adopt and implement policies, practices and procedures aimed not only at facilitating operational compliance with existing regulations, but also at ensuring that they remain focused on pollution prevention and on the continuous improvement of the environmental aspects of production methods.

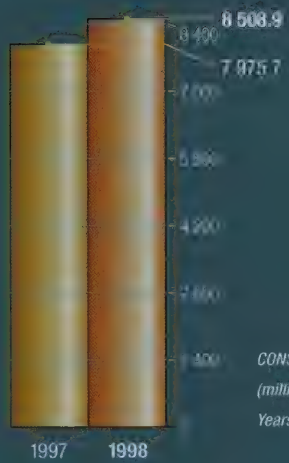


Operations

The accounting methods used for Bombardier's activities are explained in the Summary of Significant Accounting Policies that accompanies the consolidated financial statements.

The consolidated financial statements of Bombardier Inc. include the detailed effects of adding the accounts of the financial and real estate services activities to those of the Corporation's industrial operations. In order to provide a better understanding of the various data presented in the annual report, the Summary of Significant Accounting Policies contains definitions of the terms used to designate the overall operations of Bombardier Inc. (Bombardier Inc. consolidated), the industrial operations (Bombardier), as well as the financial and real estate services that fall under Bombardier Capital (BC). The application of this consolidation method has no impact on net income and shareholders' equity.

The revenues of Bombardier, excluding BC, for the year ended January 31, 1998 totalled $8.3 billion, compared with revenues of $7.8 billion for the year ended January 31, 1997. This 6% increase mainly results from higher deliveries in the aerospace industry segment as well as a more intense level of activity in the transportation industry segment.

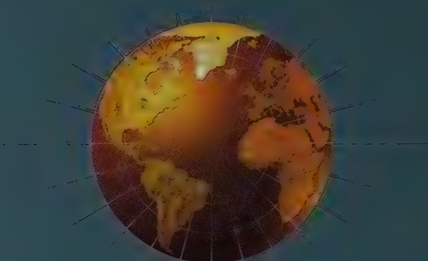


CONSOLIDATED REVENUES
(millions of Canadian dollars)
Years ended January 31

Income before income taxes reached $627.2 million, for a 3% increase over the $606.3 million income before income taxes recorded the previous year. This progression reflects the excellent performance achieved in all industry segments except recreational products.

The analysis of operating results that follows covers the activities of the Corporation's five groups: Bombardier Aerospace, Bombardier Recreational Products, Bombardier Transportation, Bombardier Services and Bombardier Capital.

BOMBARDIER
AEROSPACE



A major program milestone with the delivery of Canadair Regional Jet Serial Number 200 to Lufthansa CityLine of Germany.

The Global Express is deployed for function and reliability testing before certification.

First flight of de Havilland Dash 8Q Series 400 in Toronto, Ontario.

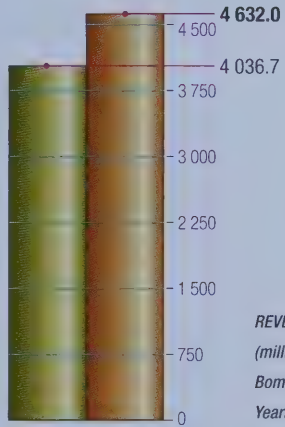
Interior of a two-compartment cabin of the Global Express featuring sophisticated telecommunications equipment. On the right: Robert E. Brown, President and Chief Operating Officer of Bombardier Aerospace.

The operating results in this industry segment derive from the activities of Bombardier Aerospace, which is described on page 2 of this report.

Revenues before intersegment eliminations in the aerospace industry segment totalled $4.6 billion in 1997-98, compared with $4.0 billion in 1996-97. An increase in aircraft deliveries was the principal factor in this 15% rise in revenues.

As a result of revenue growth and gains in productivity, income before income taxes reached $461.5 million, for a 71% increase over the $270.2 million posted in 1996-97, thereby increasing Bombardier Aerospace's operating margin from 6.7% to 10%.

At January 31, 1998, Bombardier Aerospace's order backlog amounted to $10.1 billion, compared with $6.2 billion at January 31, 1997.



REVENUES
(millions of Canadian dollars)
Bombardier Aerospace
Years ended January 31

Business Aircraft

The line of business jets offered by Bombardier Aerospace through its Business Aircraft division includes the light Learjet 31A, the super-light Learjet 45, the midsize Learjet 60, the large Challenger 604 and the ultra long-range Bombardier Global Express, along with the Corporate JetLiner and Canadair Special Edition, which are corporate variants of the Canadair Regional Jet.

Deliveries

In 1997-98, Bombardier Aerospace delivered a total of 33 Challenger 604 aircraft, compared with 30 in 1996-97. The year's deliveries included the 400th Challenger business jet. The United States remained the most important market with the delivery of 21 aircraft. The 12 remaining deliveries were spread as follows: three aircraft to customers in Canada, two to operators in Malaysia, and one aircraft each to operators in Brazil, Denmark, Israel, Mexico, Saudi Arabia, South Africa and Turkey.

In addition to the Challenger 604, three Canadair Special Edition aircraft were delivered to customers in China and three others were delivered to Malaysia, Saudi Arabia and the United States.

Learjet aircraft deliveries increased by 43% in 1997-98, totalling 50 units compared with 35 in 1996-97. Learjet 31A and Learjet 60 deliveries rose respectively from 12 to 25 units and from 23 to 25 units. In total, 35 Learjet aircraft were delivered to customers in the United States and the remainder went to customers in Argentina, the Bahamas, Brazil, Germany, Guatemala, Japan, Mexico, Namibia, South Africa, the United Arab Emirates, and the United Kingdom.

Business Jet*Solutions**, which was established in May 1995 to market and operate Challenger and Learjet aircraft for the fractional ownership program, increased its activity by January 31, 1998, to a fleet of 41 aircraft, compared with 21 aircraft at the end of the previous year. In the *Flex*Jet* program, the number of customers owning a fraction of a

business jet with a yearly flight time entitlement rose to 206 during the year, an increase of over 100 customers.

Market Shares

Assessment of market shares in the business jet industry is based on delivery data provided for the calendar year and therefore does not correspond to the number of deliveries recorded during Bombardier's fiscal year. The industry deliveries mentioned hereafter include fractional ownership aircraft.

Type certification for the Learjet 45 business jet, received in September 1997 from the U.S. Federal Aviation Administration (FAA), following one of the most comprehensive flight test and certification programs in corporate aviation history.

Global Express assembly at the de Havilland facility in Toronto.

For the 1997 calendar year, the Challenger and Canadair Special Edition share of the large aircraft segment was 38% of a 102-unit market, as against 39% of a 92-unit market in 1996.

The Learjet 31A market share in the light business jet segment increased to 15% of total industry deliveries of 139 units in 1997 from 13% of total industry deliveries of 93 units in 1996. The Learjet 60 market share in the midsize business jet segment reached 34% of a 71-unit market, compared with 30% of a 77-unit market the previous year. The Learjet aircraft market share in the combined light and midsize categories was stable at 21%.

Development Programs

The Learjet 45 received FAA type certification in September 1997 based on its overall performance, which met original specifications. Deliveries are beginning in the spring of 1998 following a program of post-certification improvements. Certification of the Global Express is expected in June 1998 and customer deliveries are scheduled to begin in the second half of the current fiscal year. The initial customer aircraft are already in the completion centre.

New Aircraft Completion Facilities

Following the 1996 acquisition of the business jet aircraft completion business of Innotech Aviation Ltd., Bombardier Aerospace expanded its business jet completion capacity by building a new facility for completion of the Global Express and the Challenger 604 in Montréal. A new completion centre for the Learjet 45 aircraft was also added at the Learjet facilities in Wichita, Kansas. As well, the Tucson, Arizona, facility is increasing its capacity for completing Challenger aircraft.

Market and Prospects

Excluding airliners used for business travel, the world fleet of business jet aircraft stood at 9,003 units as of January 31, 1998. The segments in which Bombardier is present account for the bulk of this fleet: light (4,369), midsize (2,274) and large (1,448). Products launched over the past five years have created two new market segments: the super-light and the ultra long-range segments which Bombardier covers with its new Learjet 45 and Global Express aircraft, respectively.

Nine aircraft manufacturers compete for market share in the business jet industry. Although the market remains essentially mature, it is experiencing strong growth due to a favorable economic climate, an increase in demand brought about by the popularity of fractional ownership, and a variety of new products such as the Global Express, which offers new options to the business traveller.

Bombardier will continue to strengthen its leading position in fiscal 1998-99 with the initial deliveries of Learjet 45 and Global Express aircraft, which have generated strong market interest and solid backlogs. At January 31, 1998, the backlog for the Learjet 45 reached 137 orders including fractional ownership aircraft and orders for the Global Express reached 73. Both aircraft are positioned in the two newest and fastest growing segments of the business jet market and have broadened the Bombardier business aircraft product offering.

Regional Aircraft

The line of regional aircraft offered by Bombardier Aerospace comprises the 50-passenger Canadair Regional Jet Series 100 and 200, the 70-passenger Canadair Regional Jet Series 700 and the de Havilland Dash 8 family of turboprops, which consists of the 37-passenger Series 100 and 200 aircraft, the 50-passenger Series 300 aircraft and the 70-passenger Series 400 aircraft.

Deliveries

In 1997-98 Bombardier Aerospace shipped its 200th Canadair Regional Jet and recorded an increase in deliveries of this aircraft, reaching 64 units compared with 56 in 1996-97. The largest volume of deliveries, with 12 aircraft, was made to Mesa Air Group of New Mexico, United States. The remaining deliveries were made as follows: eight each to Atlantic Southeast Airlines and Comair of the United States; six each to Air Littoral of France and Atlantic Coast Airlines of the United States; four each to Brit Air of France and South African Express Airlines of South Africa; three to Lufthansa CityLine of Germany; two each to Adria Airways of Slovenia, Midway Airlines of the United States and Tyrolean Airways of Austria; one to Dac Air of Romania; and six as corporate aircraft to Bombardier Aerospace, Business Aircraft for delivery to other customers.

Due largely to a change in supplier of aircraft interiors, production disruption had a negative impact on deliveries of de Havilland Dash 8 aircraft. Thirty units were shipped to customers, compared with 39 in 1996-97 resulting in substantial inventory levels. The bulk of the deliveries went to Horizon Air of the United States, which received 14 Series 200 aircraft. Deliveries of other Series 200 aircraft were as follows: two to Midroc Airways of Ethiopia, one each to Abu Dhabi Aviation of the United Arab Emirates, Air Niuguini of Papua New Guinea, LADS Corporation Limited of Australia, Mesa Air Group and an undisclosed airline. Series 300 aircraft were shipped as follows: three to Tyrolean Airways; two to Great China Airlines of Taiwan; one to Rheintalflug of Austria; and two to an undisclosed airline. One Dash 8 Series 100 was delivered to Ryukyu Air Commuter of Japan.

Delivery, in November 1997, of Dash 8 Serial Number 500 to Horizon Air of Seattle, Washington.

Orders and Backlog

Orders for the Canadair Regional Jet Series 100 and 200 totalled 124 aircraft (net of cancellations) in 1997-98, for a marked increase over the 61 aircraft booked in 1996-97. With 30 units each, Atlantic Southeast Airlines and Comair placed the largest orders ever for the Canadair Regional Jet, followed by Mesa Air with 16 units. The remaining orders were placed as follows: Midway Airlines (10), Atlantic Coast Airlines (6), South African Express Airlines (6), Air Littoral (5), Air Nostrum of Spain (5), Brit Air (5), Maersk Air Limited of Great Britain (5), Tyrolean Airways (3) and Adria Airways (2). Additional orders were also obtained for three Canadair Special Edition aircraft, a corporate version of the Canadair Regional Jet.

In the case of the 70-seat Canadair Regional Jet Series 700, which entered the first phase of its development in 1996-97, orders reached 27 aircraft, of which 25 were booked by American Eagle of the United States and two by Brit Air.

In 1997-98 orders for de Havilland Dash 8 aircraft totalled 30 units (net of cancellations), compared with 43 units (net of cancellations) in 1996-97. Orders for the 200 Series aircraft were booked by Horizon Air (10), Midroc Airways (2) and an undisclosed airline (2). Series 300 aircraft were purchased by Tyrolean Airways (5), Rheintalflug (3), Great China Airlines (2), and an undisclosed airline (2). Orders placed for the Dash 8 Series 400 aircraft, which is currently under development, were as follows: SAS Commuter of Sweden (15), Rheintalflug (1) and Tyrolean Airways (1). By mutual consent of Bombardier and its clients, orders for a total of 13 aircraft were cancelled during the year.

As of January 31, 1998 Bombardier's order backlog for regional aircraft consisted of firm orders for 133 Canadair Regional Jet aircraft Series 100, 200 and 700, with options for 227 more, and firm orders for 61 Dash 8 aircraft, with options for another 126.

Market Shares

The market share for Bombardier's regional aircraft is assessed on the basis of order intake during the calendar year, in conformance with the method used throughout the industry. This does not correspond to Bombardier's fiscal year order intake.

In 1997 the Canadair Regional Jet market share was 47% of the jet segment of the 20- to 90-seat market, accounting for 160 of the 337 units ordered. This compares with 52%, or 58 of the 111 units ordered in 1996.

In 1997 the Dash 8 market share decreased to 29% of the turboprop segment of the 20- to 90-seat market, accounting for 44 of the 154 units ordered. This compares with 35%, or 71 of the 201 units ordered in 1996.

The combined order intake for Canadair Regional Jet and de Havilland Dash 8 aircraft earned Bombardier a 42% share of the overall 20- to 90-seat segment of the regional airliner market in 1997 accounting for 204 of the 491 units ordered, against 41% the previous year.

Product Development

The development program for the 70-passenger Dash 8 Series 400 aircraft, which was launched in June 1995, proceeded on schedule during the year and the Dash 8 Series 400 made its inaugural flight in January 1998. Certification flight testing is under way at the Bombardier Flight Test Center in Wichita, Kansas, where a total of five aircraft will participate in the test program. Certification is scheduled for the first quarter of 1999 and will be closely followed by the initial customer deliveries.

Canadair 415 turboprop amphibian in France's Sécurité Civile livery.

Global Express' first forward fuselage assembly at the Canadair plant in Montréal.

The Canadair Regional Jet Series 700 airliner, a 70-seat version of the 50-passenger Canadair Regional Jet, entered the first phase of its development following the program launch in January 1997. The detailed design phase started in January 1998 and should be completed by year-end. The first flight is planned for the second half of 1999 and certification before the end of year 2000 with first deliveries shortly thereafter.

Market and Prospects

The air transport industry ended 1997 with some of the highest profits ever recorded. Regional airlines in general had another good year with growth rates twice as high as their major airline counterparts albeit with slightly lower growth rates than they have experienced historically.

Orders for regional aircraft increased by over 50% in calendar year 1997 with gross orders in the 20- to 90-seat market approaching 500 units, the largest volume since 1989.

The regional airlines offer good prospects over the next five years as major airlines continue to transfer routes to them and as they expand in markets served by regional jets.

The regional aircraft market remains highly competitive as the regional aircraft industry consolidates. Currently, four manufacturers compete in the 20- to 90-seat regional aircraft market. Bombardier holds a strong position in the regional jet segment with half the total orders placed since the introduction of the Canadair Regional Jet, and the addition of the Series 700 model will enable Bombardier to offer the only family of 50-to 70-seat regional jets.

With the addition of the Dash 8 Series 400 and the exit of the Saab 340, Saab 2000 and BAe J41 aircraft, Bombardier is uniquely positioned in the market as the only manufacturer offering a complete family of 37- to 70-passenger aircraft.

Amphibious Aircraft

Bombardier Aerospace manufactures and markets the Canadair 415 turboprop aircraft which is designed for firefighting but can also be adapted to a variety of specialized missions such as search and rescue, coastal patrol and transport. The Canadair 415 fills a unique niche as the only specifically designed firefighting aircraft and the only new-production amphibious turboprop in the world today.

At the end of the fiscal year, 116 amphibious aircraft, CL-215, CL-215T and Canadair 415, were in service on four continents.

Deliveries

The one aircraft that remained in the Canadair 415 order backlog at January 31, 1997 was delivered in 1997-98. An order for two aircraft, backed by an option for four more, was received from the Civilian Protection Agency of Italy at year-end. During the first quarter of 1998-99, Bombardier Aerospace received a firm order from the Government of Ontario for nine Canadair 415 aircraft.

Market and prospects

The average volume of the market for the Canadair 415 is now estimated at four units per year. Based on the continued excellent performance of the aircraft in firefighting operations in Québec, in France and in Italy, intensive marketing efforts are being directed at obtaining repeat orders from existing clients and at penetrating the markets in new geographical areas.

Component Manufacturing

The component manufacturing operations carried out by Bombardier Aerospace involve the design, development and manufacture of major airframe components as well as aircraft engine nacelles and nacelle components. The bulk of the airframe manufacturing activity takes place at the Canadair facilities in Saint-Laurent, Québec, and at the Shorts facilities in Belfast, Northern Ireland, which is also the production site for engine nacelles and nacelle components.

Production and Deliveries (Airframes)

In fiscal 1997-98 Bombardier Aerospace responded to increased demand on all of its major subcontract programs, which call for the supply of airframe components for the Airbus A330/A340 airliners and most of the Boeing civil airliners.

At the Canadair facilities, manufacturing work on fuselage components for the Airbus program proceeded at a higher pace than previously, as a result of increased requirements from Aerospatiale of France. There were increased deliveries of airframe components for the next-generation Boeing 737 airliner, and the centre wing section of the Boeing 747-400 airliner. A sustained level of activity was also recorded on the three-year order received in 1995 from the McDonnell Douglas Corporation (now a Boeing program as the result of the merger in 1997) for the supply of floor beams for the MD-11 aircraft. The Boeing Commercial Airplane Group renewed a contract for the manufacture of the rear fuselage section for the Boeing 767 long-range airliner.

Component manufacturing activities carried out at the Shorts facilities for Bombardier's aircraft.

Due to the volume increase in Boeing's programs, deliveries from the Shorts facilities in 1997-98 were significantly higher than for 1996-97 on rudders for the Boeing 737, main landing-gear doors for the Boeing 747, inboard trailing edge flaps for the Boeing 757 and nose landing-gear doors for the Boeing 777. Production continued on the composite panels being manufactured at Shorts for the Lockheed C-130 aircraft and the first components were delivered for the Apache helicopter being built by GKN Westland Helicopters Ltd., of Great Britain, for the United Kingdom's Ministry of Defence.

There was a significant increase in component manufacturing carried out at the Shorts facilities for the Canadair Regional Jet, Learjet 45 and Global Express as a result of higher market demand for those products.

Production and Deliveries (Nacelles)

The increase was also substantial in deliveries of engine nacelles for many programs, including for the Rolls-Royce RB211 engines on Boeing aircraft, the International Aero Engines V2500 engines on Airbus aircraft and the BMW Rolls-Royce BR710 engines selected for ultra long-range aircraft such as the Global Express. Other programs, such as for the Rolls-Royce RB211 Trent engines on Airbus A330 aircraft, continued at a steady pace.

Market and Prospects

The medium-and long-term outlooks remain positive in the expanding global market for aircraft components. However, competition is intensifying as new suppliers are entering the market, particularly in Asia. Bombardier Aerospace remains well-positioned to take advantage of new subcontract opportunities with the major aircraft builders, while its own highly active aircraft programs provide a solid basis for sustained manufacturing activity.

Close-air Defence Systems

Close-air defence systems operations are carried out by Shorts Missile Systems Limited (SMS), which is part of a 50-50 joint venture company between Bombardier subsidiary Short Brothers plc of Northern Ireland and Thomson-CSF of France in the area of very-short-range air defence systems.

Deliveries and Orders

Deliveries of Starstreak missiles to the Ministry of Defence of the United Kingdom continued in 1997-98. A further order for Starstreak missile systems was received during the year from the United Kingdom.

Product Development

Improvements in the performance of the Starstreak missile system have positioned the program well for air-to-air tests on the Apache helicopter in the United States. SMS has a contract from the United States Department of Defence for the testing of the air-to-air application of Starstreak on the Apache helicopter.

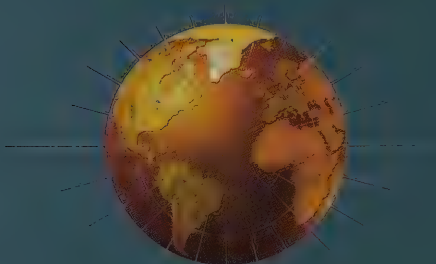
Market and Prospects

Despite increasing competition and the reduction in defence budgets, the close-air defence system market segment remains active. There are good prospects for Starstreak which is being introduced into export markets as a vehicle-based system complementing the already successful man-portable Starburst missile system.

Belfast City Airport

Belfast City Airport, which is owned and operated by Shorts, is providing satisfactory operational results. With the recent investment in a new arrivals terminal and further developments planned, it offers good future prospects.

BOMBARDIER
RECREATIONAL PRODUCTS



Ski-Doo MX Z 600 snowmobile equipped with the new «ZX platform», the benchmark in power-to-weight ratio.

Sea-Doo GTX RFI personal watercraft equipped with the innovative Rotax Fuel Injection (RFI) system.

New Sportster 1800 boat designed with the first-time boat buyer in mind.

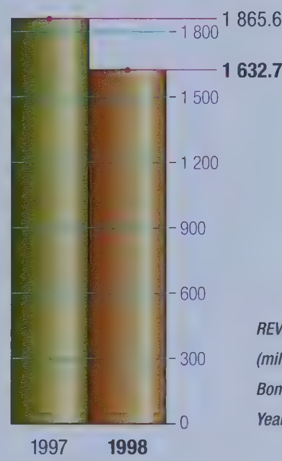
Ski-Doo snowmobiles, Mach Z and Mach 1 models in the "Muscle category", designed for the riders who demand performance. On the right: Pierre Beaudoin, President and Chief Operating Officer of Bombardier Recreational Products.

The operating results recorded in this industry segment cover the activities of Bombardier Recreational Products, which is described on page 2 of this report.

For the year ended January 31, 1998, revenues before inter-segment eliminations in the recreational products segment totalled $1.6 billion, compared with $1.9 billion for the year ended January 31, 1997. This decline in revenues was caused by lower watercraft sales for the 1997 season and the impact of the January 1998 ice storm in Québec on the assembly operations and deliveries of personal watercraft in the fourth quarter.

Retail sales of snowmobiles were lower than expected because of late snowfalls in the American Midwest and, as a consequence, Bombardier Recreational Products incurred additional costs for special sales incentive programs.

Reflecting these events, income before income taxes for 1997-98 amounted to $1.4 million, as against $212.3 million for 1996-97.



REVENUES
(millions of Canadian dollars)
Bombardier Recreational Products
Years ended January 31

Snowmobiles

The activities of Bombardier Recreational Products in the snowmobile industry comprise the design, manufacture and marketing of the Ski-Doo product line and of the Lynx line, which is designed specifically for the European market.

Sales and Market (North America)

The North American snowmobile market, which had stabilized in 1996-97 after five consecutive years of growth, took a slight downturn in 1997-98, with industry retail sales totalling 231,000 units for the selling season ending on March 31, 1998, compared with 239,000 units for the season ended March 31, 1997.

Reduced market demand led to a decrease in Ski-Doo snowmobile retail sales. However, the Ski-Doo market share remained stable at 30%.

Sales and Market (Europe)

In Europe, industry retail sales grew from 17,300 units in 1996-97 to 20,000 units in 1997-98. The unit sales of Ski-Doo and Lynx snowmobiles increased and Bombardier maintained its market leadership with a market share of approximately 50%.

Product Development

Investing in the development of leading-edge snowmobiles in order to meet evolving consumer requirements is one of Bombardier's constant priorities. The technical innovations incorporated into the 1997-98 models earned recognition from both consumers and the trade media. The Summit* X 670 H.O. (High Output) model, specifically designed for deep snow conditions, met with great success in Western Canada and the Western United States. The new CK3* chassis featured on all of the

three-cylinder models (Formula* III 700, Grand Touring* SE and 700, Mach* Z and Mach 1, and Formula III 600) was well received.

To further enhance its snowmobile line-up, Bombardier Recreational Products is introducing several new technical features for the coming winter season, including the *ZX platform* which combines a lighter weight, for improved cornering and overall balance, with new-generation lightweight yet more powerful two-cylinder reed valve engines. The *ZX platform* will be used on two models: the MX* Z 600 in the cross-country segment and the Summit 600 in the mountain segment. Three new models are also being launched for the 1998-99 season: the Formula III 800 in the high-performance sport segment, the Formula DE LUXE 670 and the fan-cooled Formula DE LUXE 500 in the grand sport segment, the latter two capitalizing on the market success of the Formula DE LUXE family.

Prospects

Bombardier expects the North American snowmobile market to decrease slightly in 1998-99 and has adjusted its production accordingly. The Corporation also believes that the snowmobile market is going through a typical phase in its traditional cycle and will be regaining its momentum in the foreseeable future. As competition remains fierce among the four manufacturers that make up the industry, Bombardier will continue to strive for market share gain and to follow an aggressive product development strategy.

The Bombardier NV, a neighborhood vehicle designed, amongst others, for closed communities of the southern United States.

The European snowmobile market will likely benefit from favourable economic conditions and continue to grow over the next two to three years. As Europe's only fully integrated manufacturer and distributor of snowmobiles, Bombardier remains well-positioned in this market.

Marine Products

The activities of Bombardier Recreational Products in the leisure marine products industry encompass the design, manufacture and marketing of the Sea-Doo personal watercraft and Sea-Doo boats.

Fiscal Year Sales

In both product categories, Bombardier's unit sales for the 1997-98 fiscal year were lower than in 1996-97, mostly as a result of reduced demand for personal watercraft in the United States. For comparison purposes, Bombardier's unit sales calculations include 1997 models sold between February 1, 1997 and the end of the selling season on September 30, 1997, as well as 1998 models sold between October 1, 1997 and January 31, 1998.

Market (Personal Watercraft)

After a decade of constant growth, the North American personal watercraft market is now going through the type of stabilization that is commonly experienced by other cyclical consumer products. Accordingly, 1997 North American industry retail sales dropped by 7.3% to 185,000 units for the selling season ending on September 30, 1997, compared with 199,600 units for the season ending on September 30, 1996. In the international market, retail sales grew by 7.5% to an estimated total of 31,150 units for the selling season ending on September 30, 1997, compared with 28,990 units for the season ending on September 30, 1996.

In the 1997 season, Bombardier maintained its 50% world share of the personal watercraft market for current year models, but lost market share for non-current models, as it had fewer such units to sell than was the case for competitors. As a result, Sea-Doo's overall market share fell to 45% from 50% the previous season.

Product Development (Personal Watercraft)

The most successful Sea-Doo personal watercraft models for the 1997 season were the GTX†† and GTI*, both of which are in the luxury three-passenger market segment. For 1998 Bombardier is adding the Limited line to its family of personal watercraft consisting of three models: the GSX* Limited, the XP* Limited and the GTX Limited, all of which provide cutting-edge performance and luxury in celebration of 10 years of product innovation and excellence. Bombardier is also introducing the GTX RFI* luxury model; the only personal watercraft on the market to eliminate carburetors through the innovative Rotax Fuel Injection system, this anniversary model provides better fuel economy, smoother operation and reduced exhaust emissions. The Bombardier sound reduction system has been implemented on a number of models and has received an award from *Popular Science* magazine for technological innovation.

Prospects (Personal Watercraft)

Bombardier expects the personal watercraft market to experience further tightening in 1998 and the production and organizational structures have been adjusted accordingly. With a view to retaining its strong industry leadership, Bombardier Recreational Products will continue to develop high quality personal watercraft with socially desirable features such as sound reduction technology and low exhaust emission engines.

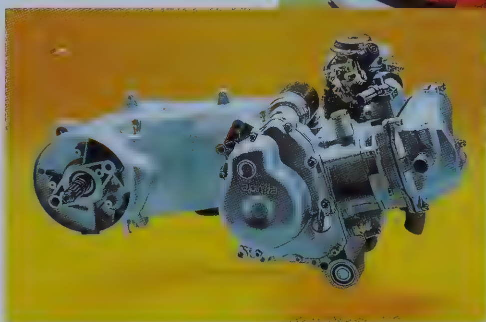
†† Registered trademark of Castrol Limited, used under licence

Market (Boats)

The North American jet boat market followed the same cyclical pattern as the personal watercraft market in 1997 and experienced a slight decline in sales. Bombardier has competed for the past four years in the 14- to 20-foot power boat segment which totals approximately 105,000 units per year and achieved an estimated market share of 5.4% for the selling season ended September 30, 1997, compared with 4.9% for the previous season.

Product Development (Boats)

With the successful 1997 introduction of the 18-foot, seven-passenger Sea-Doo Challenger* 1800 model, Bombardier broadened its line of Sea-Doo boats and strengthened its presence in this market. Two Sea-Doo boats are being launched for the 1998 season, the 16-foot, five-passenger Speedster* and the 18-foot, seven-passenger Sportster* 1800.



Bombardier-Rotax continues to invest in the development of more powerful engines for manufacturers of motorcycles and scooters.

Prospects (Boats)

Bombardier expects the jet boat category to evolve toward larger, more versatile boating usage and intends to build on its innovative line of products to achieve a higher market share.

Engines

Rotax engines are designed and built by Austrian subsidiary Bombardier-Rotax GmbH. They are used in Bombardier's Ski-Doo and Lynx snowmobiles, in Sea-Doo personal watercraft and boats, in the new Bombardier all-terrain vehicle (ATV) and in other manufacturers' motorcycles, scooters and small and ultra-light aircraft.

Sales

In 1997-98, reduced sales of Bombardier's snowmobiles, personal watercraft and boats automatically led to a decrease in deliveries of Rotax engines for those products. However, substantial growth was achieved again in the supply of motorcycle and scooter engines.

Product Development

In addition to keeping Bombardier at the leading edge of engine technology for its snowmobiles, personal watercraft and boats, Bombardier-Rotax continues to invest in the development of more powerful engines to enhance its overall position in all of its markets. A new 150cc scooter engine and a new 990cc high performance motorcycle engine were introduced in 1997. During the year, Bombardier-Rotax also completed the development of a highly innovative 500cc, four-stroke engine for the new Bombardier ATV.

Prospects

Bombardier believes that the supply of motorcycle and scooter engines to Aprilia of Italy and BMW of Germany will continue to offer interesting prospects for growth, as will the ATV market.

The NV: a neighborhood vehicle

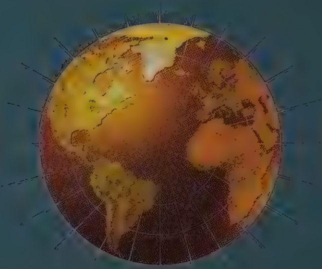
Following market introduction and the first product launch in Arizona in 1996, the Bombardier NV, an electric neighborhood vehicle, was well-received in 1997-98 in the closed communities of the southern United States for which it was designed amongst others. However, production was limited to allow for the establishment of a solid distribution network.

New Product

In line with its corporate strategy of building on existing strengths to widen its markets, Bombardier is entering the North American ATV market in 1998 with the launch of a four-wheel-drive utility ATV, the Bombardier Traxter. The Traxter model offers advanced mechanics and an ergonomic design for easier handling and more comfort. Bombardier's innovations include a new Rotax engine and the industry's first "Step-through" design for easy mounting and dismounting. The Traxter also has a 5-speed transmission with high/low range that is shifted by a button on the handlebar. The Traxter auto-locking front differential means true all-wheel drive with traction on all four wheels. The Traxter will be sold through Bombardier's Recreational Products retail network.

Bombardier is entering the North American all-terrain vehicle market with its four-wheel-drive utility Traxter model.

BOMBARDIER
TRANSPORTATION



Advanced Rapid Transit (ART) MK II vehicles for Kuala Lumpur, Malaysia.

TALENT self-propelled diesel trainset.

Low-floor City-Tram manufactured for Cologne.

Berlin subway cars manufactured by Deutsche Waggonbau AG, a German company purchased by Bombardier at the end of the fiscal year. On the right: Jean-Yves Leblanc, President and Chief Operating Officer of Bombardier Transportation.

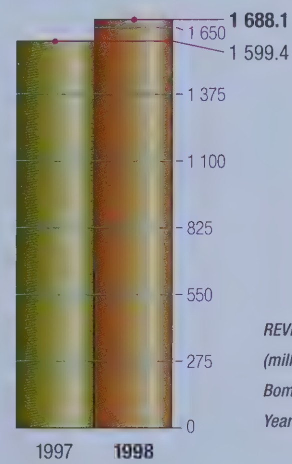
Bombardier's operating results in this industry segment derive from the activities of Bombardier Transportation, which is described on page 3 of this report.

A slight increase in work levels and in deliveries during the year ended January 31, 1998 raised revenues before intersegment eliminations in the transportation industry segment by 5.5% to reach $1.7 billion, compared with $1.6 billion for the year ended January 31, 1997.

Reflecting the strong performance achieved on current North American contracts as well as the return to profitability in the Belgian and Austrian facilities, income before income taxes amounted to $84.6 million, compared with $62.9 million in 1996-97. This 34.5% increase enabled Bombardier Transportation to post a marked improvement in profit margin from 3.9% to 5%.

At the end of the fiscal year, Bombardier acquired Deutsche Waggonbau AG (DWA), a Berlin-based manufacturer of leading-edge rail transportation equipment. This German company offers a wide range of products, including subway cars, commuter train and intercity rail-passenger train cars, diesel and electric motorized rail-passenger cars and specialized freight cars. The accounts of DWA are included in the balance sheet but not in the results of the year ended January 31, 1998.

The value of the order backlog in the transportation industry segment totalled $6.5 billion at January 31, 1998, compared with $3.8 billion at January 31, 1997. The increase results from a major car order for the New York City subway system and from the addition of the DWA order backlog. The backlog at January 31, 1998 consisted of $2.5 billion for the North American operations and $4.0 billion for the European operations.



REVENUES
(millions of Canadian dollars)
Bombardier Transportation
Years ended January 31

Activities

Bombardier Transportation is responsible for all of Bombardier's operations in the field of rail transportation equipment. It offers a full range of rail vehicles for urban, suburban and intercity rail-passenger transportation, as well as integrated rail transit systems for turnkey projects.

Deliveries and Work in Process (North America)

In 1997-98 Bombardier Transportation continued production on a 216-subway car order from the Toronto Transit Commission and delivered 68 vehicles for a cumulative total of 92.

The supply of 99 push-pull commuter cars to the MTA Metro-North Railroad of New York also progressed with the delivery of 15 vehicles for a cumulative total of 49. A New Jersey Transit order for 99 similar cars was completed with the delivery of the last 53 vehicles. Orders for bi-level commuter cars awarded by three California transit authorities were

fulfilled in their entirety during the year; the Southern California Regional Rail Authority, the North San Diego County Transit District and the San Joaquin Regional Rail Commission took delivery of 17, three and eight vehicles respectively. The 1997-98 shipments also included the first nine of 256 subway cars being overhauled by Bombardier Transportation for Sistema de Transporte Colectivo de México.

Toronto subway car T-1 incorporating the AC-propulsion technology, a Bombardier technological advance.

R142 car for the New York City subway system.

Under contracts for turnkey transit systems, Bombardier Transportation shipped the last 54 of 70 ART MK II vehicles for a light-rail transit system in Kuala Lumpur, Malaysia and 16 of the 18 M III monorail cars ordered by the Jacksonville Transportation Authority of Florida in 1994.

During the year, engineering and pre-production work was carried out on various orders received in 1995, 1996 and 1997, including those for subway cars for Mexico City's Line A, train cars for Amtrak's American Flyer††† high-speed train and R142 cars for the New York City subway system.

Deliveries and Work in Process (Europe)

In 1997-98, Bombardier Transportation delivered 37 coaches of the TGV Thalys high-speed train (Paris – Brussels – Cologne – Amsterdam), completing an order for the finishing of 85 units which had been awarded in 1992 by the Belgian, French and Dutch railways. Work continued on a French national railways (SNCF) order for the completion and interior finishing of 90 bi-level TGV high-speed train cars: 48 units were shipped for a cumulative total of 66.

Bombardier Transportation also delivered 87 motorized trainset cars to the Belgian national railways (SNCB) for a cumulative total of 114 on a 360-car order, 57 motorized cars to the SNCF and the Paris regional transit authority (RATP) for a cumulative total of 66 on a 210-car order, 31 international train coaches to SNCB for a cumulative total of 144 on a 163-unit order and the first six of 152 cars for bi-level TER 2N motorized trainsets on order from SNCF. In addition, Bombardier Transportation delivered the remaining 36 motorized diesel trainset cars of a 106-car order to the Dutch national railways (Nederlandse Spoorwegen). Transportation equipment shipments included the remaining sub-assemblies for the manufacture of 25 quadruple self-propelled trainsets contracted by Indonesian car builder PT INKA in 1993, all of the 150 low-floor container carriers on order from Swiss transportation company HUPAC, as well as equipment and undercarriages for various types of vehicles.

In Germany, the delivery of 42 low-floor Tram-Train cars fulfilled a 45-unit order received from Stadtbahn Saar GmbH of Saarbrücken in 1995. The supply of three series of 40 low-floor tramways on order from Kölner Verkehrsbetriebe of Cologne also continued with the delivery of 15 vehicles for a cumulative total of 80.

During the year, Bombardier Transportation delivered the first 100 of 381 inter-city train coaches being overhauled and refurbished for Eversholt Leasing, a United Kingdom company specialized in rail equipment leasing. The group also continued work on the overhaul of 522 commuter cars for the London Underground delivering 108 units for a cumulative total of 318. In addition, engineering and pre-production work was carried out on various orders in the backlog, including a major order for 120 TALENT self-propelled diesel trainsets (360 cars) awarded in 1996 by the German national railway (Deutsche Bahn AG).

Assembly line for the American Flyer high-speed train manufactured for Amtrak at La Pocatière.

Orders (North America)

In 1997-98 Bombardier Transportation was awarded a major order by the Metropolitan Transportation Authority New York City Transit (MTA NYCT). One of the largest orders ever received, it calls for the production of 680 new-technology R142 cars for the New York City subway system.

††† Registered trademark of Lionel Trains Inc., used under licence

Two other MTA agencies placed orders during the year: Metro-North Railroad for the supply of 50 push-pull commuter cars and Long Island Rail Road for 224 replacement undercarriages for its fleet of M-1 self-propelled trainsets which is being completely overhauled. Bombardier Transportation also won an order from the Southeastern Pennsylvania Transportation Authority for 10 push-pull commuter cars and, in association with Franco-British manufacturer GEC Alsthom, won an order from the Maryland Mass Transit Administration for six high-speed electric locomotives.

In the first quarter of 1998-99, Bombardier Transportation won an order for the supply, operations and maintenance of the New York JFK International Airport Light Rail System. The contract will be finalized within the first semestre.

Orders (Europe)

In 1997-98 Bombardier Transportation strengthened its position in the regional and commuter transportation market with five new orders for TALENT self-propelled diesel trainsets. These orders were awarded by the Norwegian national railways (NSB), three German regional transportation companies and Deutsche Bahn and call for the supply of triple and double trainsets totalling 119 cars. Other vehicle orders received call for the manufacture of 16 cars for the SNCF bi-level TER 2N motorized trainsets, 25 subway cars for the Société des Transports Intercommunaux of Brussels, a third series of 40 low-floor tramways for Kölner Verkehrsbetriebe, 12 intermediate articulated-tramway cars for the City of Graz, 30 light-rail vehicles for the City of Vienna and 12 light-rail vehicles for the City of Stockholm to be supplied in collaboration with the manufacturer Adtranz.

Tram-Train car manufactured for Stadtbahn Saar of Saarbrücken, Germany.

Bombardier Transportation also received orders for the overhaul of 700 undercarriages for the Caracas subway fleet in association with GEC Alsthom and for 80 undercarriages for turbotrains operated by the Egyptian national railways (ENR).

Bombardier Transportation received its largest order ever in the first quarter of the 1998-99 fiscal year. This order was placed by the Virgin Rail Group of the United Kingdom and calls for the manufacture and maintenance of 43 self-propelled trainsets, each consisting of four diesel-electric cars equipped with a tilting system, 140 train coaches and 36 diesel-electric locomotives. The final contract will be signed once the financing is in place.

For more than twelve years, the MTA Metro-North Railroad of New York has been operating a commuter train service with Bombardier's push-pull commuter cars.

Market

In recognition of the cyclical fluctuations which are characteristic of the rail transit equipment market, Bombardier determines its market share as an average based on the total number of vehicle units ordered within the industry over the past three calendar years. In 1997 Bombardier's market share in Canada and the United States was 48%, compared with 35% in 1996. The share achieved in Bombardier's traditional European markets (Austria, Belgium, France, Germany, the Netherlands and the United Kingdom) rose to 8% from 7% in 1996, excluding DWA.

According to estimates made by Bombardier Transportation, the potential volume in markets served by the group is about 26,000 new cars for the next five years. The portion for Canada and the United States is estimated at 4,300 units for the period for a yearly average of 850 vehicles. This average is 60% higher than the yearly average of 530 vehicles for the past five years. Following a decline in recent years, the European market for the types of vehicles provided by Bombardier is showing signs of recovery and is expected to be approximately 20,000 new vehicles over the next five years for an annual average of 4,000 units. Bombardier's estimates now group the Mexican and Latin American markets together and place the combined market potential at approximately 1,700 units over the next five years.

Strategic Acquisition and Alliance

Deutsche Waggonbau AG (DWA)

Acquired at year-end, Berlin-based DWA is one of Deutsche Bahn's main suppliers and maintains an active presence in its traditional markets in Central and Eastern Europe as well as in Russia. DWA employs some 4,800 people and manufactures passenger railcars, freight cars, undercarriages and a variety of electronic components. The company operates six plants and a research and development centre in Germany. In addition, it has a subsidiary in Switzerland, Vevey Technologies, and holds a majority interest in Vagonká Ceská Lípa, a Czech manufacturer of rail equipment, and a minority interest in a Russian company specializing in freight-car overhauling.

ELIN EBG Traction GmbH

Bombardier Transportation formed a strategic alliance and concluded an agreement to acquire 26% of the share capital in ELIN EBG Traction GmbH of Vienna in March of 1998, thus gaining an international partner in the field of rail traction equipment. This alliance provides a source of electrical equipment for Bombardier Transportation's main products, including its TALENT line. The Corporation is now well-placed to enhance its expertise in traction technology and to initiate joint development projects with ELIN EBG as the electrical equipment supplier as part of a long-term strategy to maximize its market position.

Prospects

In 1997 the market in Canada and the United States reached its highest level of orders since 1982. This market is expected to remain strong as major equipment replacement programs are being implemented by several large American transportation agencies and higher demand for diesel self-propelled trainsets is emerging. With the award of the New York subway car order, Bombardier has confirmed its leadership position in the new rail-passenger vehicle market. The high-speed and very-high-speed train market also offers attractive potential in the longer term. Indeed, the very-high-speed segment, and the FOX project in Florida in particular, has reached a crucial development phase. In the coming year, the U.S. government will be responding to the State of Florida's request for financial aid and environmental impact studies will be undertaken. The Canadian TGV high-speed train project is currently under study by the interested industrial parties and will be submitted shortly to the Québec and Ontario Governments as well as to the Canadian Government.

In Europe, privatization of the British and German railways and the emergence of several new smaller operators are stimulating demand. With its TALENT self-propelled trainsets, Tram-Train and car-tilting technology, Bombardier is uniquely equipped to meet the trend for more flexible products in all of its markets. Building on the spate of new orders won in 1997-98, the Corporation intends to increase its share of the German market which is by far the most significant in Europe. The acquisition of DWA not only expands Bombardier's industrial presence in Germany, but also opens up new prospects in the Eastern European markets.

In Mexico, Bombardier is poised to meet the rolling stock needs resulting from an ageing fleet and the progressive privatization of the national railways. The Corporation also continues to assess opportunities in the Latin American market, which offers good potential, especially in the large metropolitan regions of Argentina, Brazil and Chile.

While the market potential for turnkey urban transit systems in Southeast Asia remains interesting in the longer term, some delays are expected in the countries most affected by the recent economic instability in this region. Bombardier continues to market its products and services in that part of the world through offices in Bangkok, Beijing, Djakarta, Hong Kong, Kuala Lumpur and Taipei.

China is one of the world's largest markets for rail transportation equipment. In November 1997 Bombardier and its partners, Power Corporation of Canada and LORIC of China, reached a new milestone in their efforts to form a joint venture for the manufacture of rail transit vehicles by signing an agreement in principle with the China Ministry of Railways. The proposed joint venture has taken on even greater strategic importance with the recent lifting of the Chinese Government's moratorium on mass transit system expenditures, all the more so since only a few foreign manufacturers will be authorized to form such joint ventures.

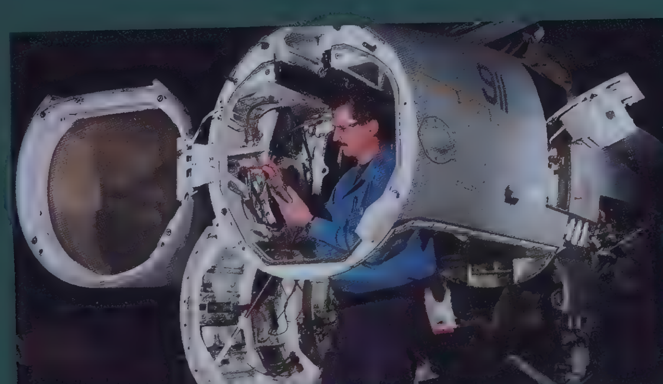
Nova Bus

In January 1997 Bombardier announced its intention to divest its 25% interest in urban bus manufacturer Nova Bus, which had been held since 1994, as the investment was no longer in line with its strategic focus. In December 1997, Prévost Car Inc., a subsidiary of AB Volvo of Sweden, entered into an agreement to acquire Nova Bus and the transaction was subsequently completed.

BOMBARDIER
SERVICES

Unmanned aerial vehicle CL-327 Guardian designed to satisfy numerous maritime and land vertical take-off and landing system requirements.

Flying training program for the Canadian Forces at the Canadian Aviation Training Centre in Southport, Manitoba.



Bombardier Services continued to provide integrated engineering support of the Canadian Forces' fleet of CF-18 fighters.

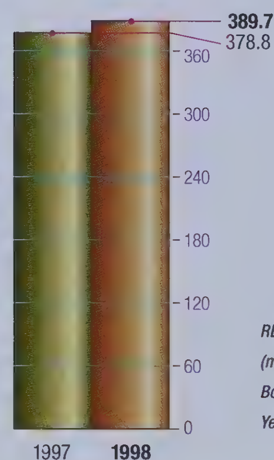
Class-C service checks for Comair's regional aircraft fleet. On the left: Anthony I. Kalhok, President and Chief Operating Officer of Bombardier Services.

Operating results in this industry segment are generated by the activities of Bombardier Services, which is described on page 2 of this report.

In the services industry segment, revenues before intersegment eliminations increased slightly to $389.7 million for the year ended January 31, 1998, compared with $378.8 million for the year ended January 31, 1997.

As a result of better performance in all activities, income before income taxes totalled $15.6 million, as against $14.0 million the previous year.

At January 31, 1998, the Bombardier Services order backlog stood at $1.5 billion, compared with $392.3 million at January 31, 1997. The marked difference stems from a major 20-year services contract from the Government of Canada for the NATO Flying Training in Canada program (NFTC).



REVENUES
(millions of Canadian dollars)
Bombardier Services
Years ended January 31

Defence Services

Bombardier Services currently markets and provides a variety of training, technical support and operations management services for military aviation and defence customers.

Military Aircraft Support

In 1997-98 the group continued to provide services at a steady pace under a three-year renewal contract awarded in 1996-97 by the Canadian Department of National Defence for the integrated engineering support of the Canadian Forces' fleet of CF-18 fighter jets. Work also progressed steadily on existing contracts to supply logistic support, aircraft and equipment servicing, and maintenance for the United Kingdom's Ministry of Defence, the United States Army National Guard, the United States Air Force and various customers in the Middle East.

Bombardier extended its aviation service activities to other sectors with the December 1997 acquisition of Specialist Aviation Services, a United Kingdom company incorporating Police Aviation Services (PAS) and Medical Aviation Services (MAS). There are currently 23 PAS and MAS contracts in support of regional police and ambulance airborne operations in the United Kingdom.

Aircraft Conversion and Modifications

As a subcontractor to Short Brothers plc, Bombardier Services continued the conversion of Shorts SD-360 airliners into C-23B+ military transport aircraft for the United States Army National Guard. Other ongoing activities involved fatigue modifications on trainer aircraft for the United Kingdom's Ministry of Defence and mission conversion of Challenger aircraft for the Canadian Forces.

Flying Training

A stable rate of activity was maintained on Bombardier Services' two principal aviation training contracts: fully integrated support of primary flying training for the Canadian Forces at the Canadian Aviation Training Centre (CATC) in Southport, Manitoba, and for the Royal Air Force at Linton-on-Ouse, England.

In November 1997 the Canadian Government announced that it was awarding Bombardier Services a 20-year contract under the NFTC program which is a cooperative effort between government and industry to train military jet pilots from NATO countries at Moose Jaw, Saskatchewan and Cold Lake, Alberta. The NFTC project is scheduled to begin in 1999 and calls for a Bombardier-led team to provide fully serviced aircraft, training material, flight simulators, and airfield and site support services for an approximate total value of $1.3 billion.

Unmanned Aerial Vehicles (UAV)

The CL-327 Guardian UAV was launched by Bombardier Services in October 1996 and successfully completed its first flight in November 1997. The Guardian is designed to satisfy emerging maritime and land vertical take-off and landing (VTOL) UAV system requirements by offering a production version that represents an affordable VTOL solution. The CL-327 was selected in December 1997 to participate in the United States Navy VTOL UAV program.

Commercial Aviation Services

Bombardier Services provides and markets a variety of technical and maintenance services for commercial aircraft. Commercial Aviation Services was created to foster the growth of this activity and to promote complete life cycle technical operations services to regional airlines.

In 1997-98 Bombardier Services continued to provide painting and interior completion of the 50-passenger Canadair Regional Jet aircraft for Bombardier Aerospace. In addition, it carried out a major modification program as well as the class-A service checks for all of Comair's Canadair Regional Jet fleet. During the year the services provided for the Comair fleet were extended to include class-C checks. Atlantic Coast Airlines awarded an order to Bombardier Services for structural checks on its fleet of Jet Stream 41 aircraft and Atlantic Southeast Airlines outsourced its heavy maintenance class-C checks for its fleet of Embraer 120 turboprops.

Utility Vehicles

Bombardier Services designs, manufactures, sells and services a variety of all-purpose utility vehicles, the most important of which is a full line of specialized tracked vehicles used for grooming ski hills and snowmobile and cross-country ski trails.

The demand for snowgrooming equipment remained stable in 1997-98 and Bombardier Services maintained its leading position in the North American market. In Europe, the market requirement is shifting toward more powerful vehicles and Bombardier Services is currently developing new equipment which will be available in the next winter season to meet these evolving requirements. At the end of the sales season, Bombardier's share of the world market was estimated at 34%, compared with 36% in 1996-97.

Prospects

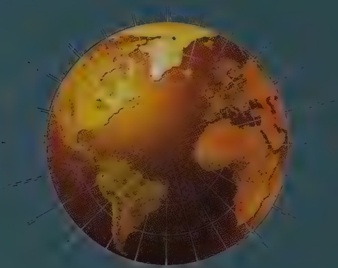
The trend toward outsourcing by governments is creating opportunities for service suppliers in the private sector within the continually shrinking defence market. Building on its expertise, product knowledge and technical capabilities, Bombardier Services seeks to extend to other countries the military aircraft support services that it currently provides to Canada, the United States, the United Kingdom and the Middle East and to expand its presence in the flying training market, which offers good prospects for growth as clearly demonstrated by the NFTC project. Bombardier also intends to capitalize on its proven VTOL UAV design and vast aerospace production capabilities to meet new VTOL requirements in the UAV market.

Plus MP snowgroomer with the snowboard half-pipe attachment.

A similar pattern of support service outsourcing is developing in civil aviation. With the experience gained in service support for its own aircraft, particularly the Canadair Regional Jet, Bombardier is gearing up to take advantage of the potential offered in this market segment.

Its wide range of vehicles and ability to provide such services as technical training of the customers' personnel and advice on grooming practices enable Bombardier to serve the mega-ski-centre operators that now make up the bulk of the North American snowgrooming equipment market. A new high-powered groomer being introduced in 1998 should enable Bombardier Services to strengthen its position in the highly competitive European market.

BOMBARDIER
CAPITAL



Consumer financing programs extend to boats, snowmobiles, personal watercraft, trailers, motorcycles, and other recreational equipment.

Working through retail dealers in U.S. markets, Bombardier Capital's Mortgage Finance business unit offers a variety of financing options to purchasers of manufactured homes.

Technology leasing and management services covering computer, medical and telecommunications equipment provide customized solutions for investment-grade businesses.

Inventory financing solutions benefit North American and European manufacturers, distributors and dealers across a range of industries. On the right: Pierre-André Roy, President and Chief Operating Officer of Bombardier Capital.

Results in the financial and real estate services segment are generated by the activities of Bombardier Capital (BC), which is described on page 3 of this report.

In 1997-98 Bombardier Capital's revenues before intersegment eliminations, from assets under management, totalled $352.4 million, up from $244.6 million the previous year. Income before income taxes increased from $46.9 million to $64.1 million.

The volume of financing assets under management was $7.2 billion, up from $5.6 billion in 1996-97.

Financial Services

Bombardier Capital's traditional core businesses include secured inventory financing services for dealers and distributors of recreational and consumer products, as well as commercial lending, leasing and asset management services for business aircraft and commercial and industrial products. Factoring of accounts receivable and other financial services are also provided to Bombardier and its affiliated companies.

To widen its product offering, in 1997 Bombardier Capital entered new market segments by launching its own consumer financing operations in both the recreational products and manufactured housing markets. It also expanded its commercial leasing activities to new products such as computer and telecommunications hardware and software and to railcar leasing through the acquisition of NorRail Inc. of Buffalo, Minnesota.

Inventory Finance

Bombardier Capital provides inventory financing on a secured basis, principally to dealers located in the United States and Canada, for the purchase of recreational, consumer and commercial products from specified manufacturers and distributors.

Bombardier Capital aims to focus its activity as a captive finance provider. It also intends to pursue new business opportunities in non-captive industry segments across the North American and international markets.

Commercial and Industrial Finance

Bombardier Capital provides asset-based financing to commercial customers chiefly in the United States and Canada with respect to various commercial and industrial equipment and business aircraft. It also offers railcar leasing and management services to customers in the United States and Canada through NorRail Inc.

Business aircraft and commercial and industrial financing is a highly fragmented and mature industry in North America. Future growth will be achieved primarily through the pursuit and development of business opportunities in new geographical markets and provision of new services to existing markets.

Bombardier Capital's current strategy is to pursue its primary objective of financing business aircraft manufactured by Bombardier and its affiliates and other commercial and industrial products.

Consumer Finance

Bombardier Capital commenced its consumer finance operations in early 1997 in both the United States and Canada by offering financial products that enable consumers to acquire recreational products and services.

Years ended January 31 (millions of Canadian dollars)

A key objective of Bombardier Capital is to provide innovative retail financing solutions for Bombardier Recreational Products. It also intends to leverage off existing relationships with other manufacturers to develop synergies that benefit its other operations.

Mortgage Finance

Early in 1997 Bombardier Capital began to offer a variety of mortgage financing to purchasers of manufactured homes. Bombardier Capital currently concentrates its efforts in the southeastern United States where most manufactured housing is purchased. Manufactured housing finance opportunities are generated through a network of dealers who sell manufactured homes to consumers.

The manufactured housing industry has grown significantly over the past decade and this growth is expected to continue. Bombardier Capital's objective is to increase its market share, expand into western United States markets and participate in industry growth.

Technology Management and Finance

In early 1997 Bombardier Capital began to offer leasing and technology management services to investment grade businesses for computer and telecommunications equipment.

The computer and telecommunications leasing market in North America has an annual volume of approximately US $50.0 billion. Bombardier Capital expects this market to experience growth at a rate of approximately 15% to 20% annually over the next three to five years. For this reason and because no competitor holds more than 10% of the market, an opportunity exists for Bombardier Capital to compete effectively in this financing market segment.

The main objective of Bombardier Capital is to become a full-service provider of computer and telecommunications leasing services by broadening its presence and establishing strategic alliances with various partners.

Real Estate Services

Through Bombardier Inc.'s Real Estate Services, Bombardier Capital derives revenues from the development of Bombardier real estate assets that are earmarked for new uses and from activities aimed at meeting the real estate needs of the other Bombardier businesses.

Other revenues are generated from the sale of land to real estate developers in the Bois-Franc project which involves the establishment of an urban residential community with integrated commercial and service infrastructures on land adjacent to the Canadair facilities in Saint-Laurent, Québec.

Six Sigma

In today's business world, all good companies are committed to continuous improvement. Whatever the techniques used, the goal is the same: to produce better products at lower cost.

In this environment, simply improving our costs or quality on an annual basis is not good enough. We must ensure that our rate of improvement is better than the competition's.

To meet this challenge, Bombardier is undertaking the Six Sigma initiative, as it provides the means of achieving the highest level of customer-defined quality at the lowest cost, thereby increasing profit margins and enhancing Bombardier's competitive position.

A highly disciplined initiative, it aims at virtually eliminating defects in products as well as in the processes through which they are produced. It is based on the principle that the best way to reduce costs, improve cycle time, and customer satisfaction is to reduce and eventually eliminate defects the first time around in engineering, procurement, production and administrative systems. At a level of Six Sigma, there are only 3.4 defects per million opportunities, virtual perfection!

Six Sigma Master Agents and Core Team members reviewing Six Sigma training material.

A focus on quality is not new to Bombardier. A number of important quality initiatives have already been successfully implemented.

How will Six Sigma help Bombardier improve its performance?

- It establishes a rigorous problem-solving process that flows from a clear understanding of customer needs.
- It develops the skills of, and provides the tools for, statistical reasoning that helps to achieve new breakthroughs in product and process performance.
- Six Sigma methodology and tools not only improve the Corporation's ability to control its processes, but also its ability to design products that can be made without defects.
- Six Sigma emphasizes practical, focused projects that have customer and business impact.
- The Six Sigma effort is linked to Bombardier's business priorities and strategies and is supported by top management and full-time, well-trained resources that help to get improvement under way.
- By providing a common set of tools and techniques, Six Sigma will ensure that Bombardier has a common quality language that allows easy transfer of best practices.
- The measurable stretch goal of Six Sigma, 3.4 defects per million opportunities (DPMO), forces the search for new, innovative solutions.

The Six Sigma program requires a major training effort. Every agent is provided with four weeks of training in advanced techniques to identify and eliminate defects before they are assigned to practical and focused projects. As projects are completed, quality and costs results are carefully tracked and best practices are shared in a systematic fashion.

During the next two years, over 400 full-time Six Sigma Agents will be developed across Bombardier. Ultimately, Six Sigma methodologies will become a standard part of every manager's "tool kit" and to this end, Bombardier will offer managers an intense two-week training program.

Launched last year at Bombardier Aerospace, Six Sigma projects are already yielding concrete results. Annual savings of several million dollars will be captured by eliminating defects in manufacturing and administrative processes.

As an example, a team involved in a recent Six Sigma project at Bombardier Aerospace looked at customer and Transport Canada requirements pertaining to documentary evidence and traceability. The project objective was to reduce documentation errors by 80%. Actual improvements to date are in the order of 90%, and savings are expected to approximate $200,000 per year.

Improvements were made through standardization of criteria, better document format, training and improved feedback.

Another Bombardier Aerospace project brought together a cross-functional project team from Toronto and Montréal facilities in an effort to reduce defects within the experimental and ground testing design process. The team identified changes that can potentially provide a ten-fold reduction in defects and continues to study further possibilities to reduce defects. Potential net savings in design, manufacturing and assembly are estimated at $1 million over four years.

In addition to improving Bombardier's performance, Six Sigma will provide many opportunities to identify and develop a large number of young future leaders within the organization.

Six Sigma is one of the most ambitious quality and productivity improvement programs undertaken by Bombardier. Six Sigma will contribute to Bombardier's success by increasing both its operating margins and the quality of its products, even in an environment of stable or declining prices.

Consolidated Statements of Income

As mentioned at the beginning of this analysis, due to increased revenues and excellent performance in all industry segments except recreational products, income before income taxes for Bombardier Inc. and its subsidiaries amounted to $627.2 million for the year ended January 31, 1998, compared with $606.3 million for the preceding year.

Measurement of Segment Profit or Loss and Segment Assets

In 1997-98, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning segment disclosures. The 1996-97 figures have been restated to conform with this new presentation.

The Corporation evaluates performance based on income or loss before income taxes. Intersegment services are accounted for as if the services were to third parties, at current market prices. The interest costs are allocated to the segments based on the net assets of each segment. Corporate Office charges are allocated based on revenues of each segment.

The net assets by segment are used to assess the resources utilized by each segment. For all manufacturing segments, net assets include accounts receivable, finance receivables and other, inventories, fixed assets and a portion of other assets, less accounts payable and accrued liabilities and advances and progress billings in excess of related costs.

For Bombardier Capital (BC), the measure used to evaluate the resources utilized is the amount of investment in BC, and consequently this amount is shown as a segment asset for BC.

Analysis of the Results per Industry Segment

As indicated in note 22 to the Consolidated Financial Statements, the various industry segments of the Corporation had varied contributions to the $627.2 million posted as income before income taxes for the year ended January 31, 1998.

In the aerospace segment, income before income taxes amounted to $461.5 million compared with $270.2 million in 1996-97. During 1997-98, the profit margin reached 10%, as compared to 6.7% the previous year, mainly due to productivity gains on the different aircraft programs and component manufacturing contracts.

In the recreational products segment, income before income taxes decreased significantly from $212.3 million for the year ended January 31, 1997 to $1.4 million for the year ended January 31, 1998. Bombardier experienced a difficult year in this segment. This was compounded in the last month of the fiscal year by a freezing rain storm which idled assembly operations of the facilities in Valcourt, Québec, as well as that of suppliers of major components for Sea-Doo personal watercraft, for several days. A large number of personal watercraft, some 9,000, could not therefore be assembled and shipped to the dealer network in January 1998. Delaying these deliveries to the following month reduced revenues and profitability in the fourth quarter. Moreover, with retail sales of snowmobiles lower than expected because of late snowfalls in the American Midwest, additional costs of special sales programs had to be incurred. These events, combined with lower personal watercraft sales for the 1997 season, reduced income before taxes for this segment close to the break-even point.

In the transportation segment, income before income taxes amounted to $84.6 million, compared to $62.9 million last year, due to the good performance achieved on contracts in process in North America and the return to profitability in the Belgian and Austrian facilities.

In the services segment, the income before income taxes recorded in 1997-98 was $15.6 million, compared with $14.0 million in 1996-97. This slight increase was mostly due to improved profitability on overall service activities in this segment.

BC posted an increase in income before income taxes, reaching $64.1 million for the year ended January 31, 1998, as against $46.9 million the previous year. This favourable difference is attributable to an increase in revenues from operations, which rose from $244.6 million for 1996-97 to $352.4 million for 1997-98. The increase in the financial results is explained by a healthy growth in receivable levels, continued reduction of general and administrative expenses as a proportion of managed assets, continued refinement of underwriting standards and favourable economic conditions, specifically in the United States.

Income Taxes

In fiscal 1997-98, the Corporation's income taxes totalled $207.0 million, as against $200.1 million in 1996-97, with effective taxation rates of 33%. The income tax expense is explained in note 16 to the Consolidated Financial Statements.

Earnings per Share

Net income reached $420.2 million, or $1.18 per share on an average of 338.3 million shares outstanding, for the year ended January 31, 1998, compared with a net income of $406.2 million, or $1.18 per share on an average of 336.1 million shares outstanding, for the year ended January 31, 1997. Basic earnings per share gives effect to the increase in the carrying amount of the equity component of the convertible notes. Fully diluted earnings per share gives effect to the exercise of all dilutive elements including the convertible notes. The difference of $0.01 between the basic earnings per share and the fully diluted earnings per share is explained by the share market value and the rate of interest used for this calculation. Last year, the difference was $0.02 per share.

Consolidated Balance Sheets and Consolidated Statements of Changes in Financial Position

Presentation and Operating Cycle

The Consolidated Balance Sheets and Consolidated Statements of Changes in Financial Position of Bombardier and BC differ to such an extent that they cannot be simply added up or combined; this is particularly manifest with respect to assets, liabilities and changes in cash position resulting from operating, investing and financing activities. These basic differences between the Corporation's industrial and financial operations, which are highlighted in the ensuing analysis of consolidated results, are well understood and taken into account in financial analysis methods commonly used by investors, credit rating agencies and financial analysts.

Furthermore, the balance sheets are unclassified since the Corporation carries out operations in five distinct segments, each one characterized by a specific business and operating cycle.

The operating cycle in the aerospace segment is based on the length of each program. The cycle of each program is variable, but usually extends over many years. The operating cycle for the recreational products segment is seasonal and based on cycles of less than one year. In the transportation segment, most manufacturing work performed relates to long-term contracts which extend for periods of one to three years. In the services segment, maintenance contracts can spread over periods exceeding ten years. The operating cycle for BC depends on the underlying operations. This segment includes the real estate operations for which the operating cycle extends over many years, and the financing subsidiaries operations which, as is the case for most financial institutions, have operating cycles as short as a few months for short-term lending activities, and as long as several years for long-term financing and assets leasing activities.

Bombardier Balance Sheets

At year-end, Bombardier acquired Deutsche Waggonbau AG (DWA) and posted its accounts in the Balance Sheet as of January 31, 1998 without including its results for the year ending at the same date. Note 1 to the Consolidated Financial Statements provides detail of the net assets accounted for, which must be taken into consideration in the analysis of the Balance Sheet accounts variation.

At January 31, 1998, Bombardier's total assets amounted to $8.2 billion, compared with $6.5 billion at January 31, 1997. Cash and term deposits increased from $889.1 million as at January 31, 1997 to $1 090.2 million as at January 31, 1998. The analysis of the Statement of Changes in Financial Position of Bombardier provides explanations for this increase.

Finance receivables and other amounted to $496.3 million as at January 31, 1998 compared with $137.3 million as at January 31, 1997. The increase relates mainly to loans receivable amounting to $370.3 million granted to customers for aircraft sales. These loans are financed through borrowings which are shown as liabilities under the caption notes payable. Securitization of these loans will be completed shortly.

Inventories, the most important asset on the Bombardier Balance Sheet, amounted to $3 790.9 million as at January 31, 1998, after deduction of advances received from customers and progress billings, compared with $3 455.2 million as at January 31, 1997. Note 4 to the Consolidated Financial Statements provides distribution per type. Inventories before deducting advances received from customers and progress billings in the aerospace segment represent 76% of the total amount, as compared to 75% the preceding year, while advances received from customers and progress billings in the same segment represent 59% of the total amount, as compared to 52% the preceding year. This increase in the absolute amount of inventories before deducting advances received from customers and progress billings in the aerospace segment is mainly attributable to a production disruption due to a change in supplier of aircraft interiors, thereby leaving substantial inventory levels of finished products at year-end. Furthermore, the increase is explained by the increased rates of production and ongoing major investments in non-recurring costs pertaining to the Learjet 45, Global Express, Dash 8 Series 400 aircraft and Canadair Regional Jet Series 700 programs presently in progress. As mentioned in note 4 to the Consolidated Financial Statements, although Management periodically revises estimates for each program, inventory valuation in the aerospace segment comprises numerous estimates which may vary from amounts eventually realized. Thus, note 4 states the total amount of non-recurring costs, together with the total amount of excess over average production costs planned to be recovered on future aircraft orders relative to programs for which the development phase is completed. Similar information relative to other aircraft programs under development will be provided as soon as the development phase has ended, financial data pertaining to these calculations then becoming available.

Other assets, as indicated in note 6 to the Consolidated Financial Statements, amounted to $182.2 million as at January 31, 1998, compared with $183.6 million last year. This caption includes the investment in Eurotunnel share units amounting to $50.0 million.

Advances and progress billings on contracts and programs are deducted from related costs in inventories, whereas advances and progress billings in excess of related costs are shown as liabilities. Advances and progress billings in excess of related costs amounted to $851.6 million as of January 31, 1998, compared with $591.4 million at the same date last year. This $260.2 million increase is explained mainly by advances received on orders obtained during the year in the aerospace and transportation segments and by the inclusion of the amounts of DWA at acquisition.

On February 1, 1996, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning financial instruments. Under this new accounting policy, the present value of interest payments on convertible notes is recorded as long-term debt, whereas the present value of the principal is recorded in shareholders' equity. The equity component of convertible notes will increase until October 1999 as a result of charges against retained earnings to reach an amount equal to the nominal value of the convertible notes at maturity. Under the new accounting policy, only the interest on the long-term debt component of convertible notes is included in inventories, and it is recognized in the results under the program method of accounting.

The ratio of debt, after deduction of cash and term deposits, to shareholders' equity was 13:87 as at January 31, 1998, compared with 19:81 as at January 31, 1997. It is Bombardier's intent not to exceed a ratio of 30:70 for this item.

Deferred translation adjustments included in shareholders' equity amounted to $136.3 million as at January 31, 1998, as against $65.1 million at the end of the previous year, representing the cumulative variation of the Canadian dollar compared with the currencies of the main countries in which the Corporation maintains self-sustaining foreign operations. All Balance Sheet items of self-sustaining foreign operations are translated at exchange rates in effect at year-end, while revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses, including those related to debt denominated in a foreign currency and designated as a hedge of net investments of self-sustaining foreign operations, are shown under "Deferred Translation Adjustments" in shareholders' equity. The Corporation believes it to be efficient to present certain debts denominated in a foreign currency as a hedge of the self-sustaining foreign operations, because these debts are denominated in the same currency as the hedged self-sustaining investments. The Corporation also has the ability to refinance the debts in the same currencies at maturity if it wishes to retain the hedge.

BC Balance Sheets

The portfolio of finance receivables and other, which represents the most important asset for BC, amounted to $2.5 billion as at January 31, 1998, compared with $1.7 billion as at January 31, 1997. This increase results mainly from growth in BC's activities and particularly the addition of consumer financing, mortgage financing and technology management and financing during the year. Note 3 to the Consolidated Financial Statements explains this portfolio, which is as diversified and secured as possible so as to maintain its risk at a low level in a changing economic environment.

BC has concluded various US and Canadian securitization facilities, allowing for punctual or ongoing transfer of eligible finance receivables and other, for which BC remains the servicer. The amount of finance receivables and other sold was $1 367.6 million as of January 31, 1998, compared with $984.0 million as of January 31, 1997.

As is customary for financial companies, BC's financial leverage, that is the ratio of debt and off-balance-sheet debt to shareholders' equity and advances from related parties, is higher than for Bombardier's industrial operations. BC's ratio for the year ended January 31, 1998 was 9.9, compared with 8.1 for the year ended January 31, 1997. This level of leverage is considered satisfactory for this type of business. Notes 7 and 8 provide details of the short-term borrowings and long-term debt of the BC Balance Sheets.

Bombardier Statements of Changes in Financial Position

Cash provided by operating activities amounted to $394.6 million for the year ended January 31, 1998, a lower level than the $410.8 million posted for the preceding year. In this respect, the previously mentioned increases in inventories and the increase in accounts receivable were partly compensated by increases in accounts payable and accrued liabilities, advances from customers and net income for the year, including related deferred income taxes.

Cash used in investing activities amounted to $405.1 million for the year ended January 31, 1998, compared with $352.7 million the previous year.

Additions to fixed assets totalled $247.4 million, as against $229.9 million in 1996-97 and note 22 to the Consolidated Financial Statements provides the distribution per industry segment. Thus, in the aerospace segment, additions to fixed assets amounted to $160.0 million in 1997-98, as against $135.8 million the previous year. The main investments were allocated to the completion centre at Dorval, the reorganization of the plant in Belfast and the expansion of the paint and delivery centre in Wichita. In the recreational products segment, additions to fixed assets amounted to $38.7 million in 1997-98, compared with $43.7 million the previous year. Investments were essentially allocated to the normal investment programs. In the transportation segment, additions to fixed assets amounted to $40.8 million in 1997-98, as against $44.7 million the previous year and were essentially allocated to the normal investment programs.

The $359.0 million increase shown for the year under the caption of finance receivables and other, compared with $90.1 million for the previous year, was explained in the Balance Sheet analysis.

The acquisition of DWA resulted in cash provided by investing activities as the amount of the cash consideration of $517.8 million is lower by $144.3 million than the cash amount acquired of $662.1 million.

An increase of $76.7 million was recorded for the variation in deferred translation adjustments in 1997-98, compared with $11.5 million the preceding year. As mentioned in the Summary of Significant Accounting Policies under the heading "Translation of foreign currencies", balance sheet items of foreign self-sustaining operations are translated at exchange rates in effect at year-end. The gain realized during the year results from the decrease in value of the Canadian dollar against currencies of countries where the Corporation maintains activities, and it is shown as an investment activity.

Cash used in financing activities reached $118.4 million in 1997-98, compared with cash provided of $310.7 million in 1996-97. Thus, the long-term debt decreased by $240.6 million, essentially the result of repayments during the year. Furthermore, the issue of 12 million preferred shares, Series 2, added $300.0 million to the general funds, except for an amount of $30.9 million which was used to redeem all outstanding Series 1 preferred shares. Finally, issuance of shares under the share option plan and to employees for cash totalled $33.0 million in 1997-98, compared with $31.1 million the preceding year.

In 1997-98, the combined sources and uses of funds related to operating, investing and financing activities produced a decrease in cash from $889.1 million at the beginning of the year to $760.2 million at year-end.

BC Statements of Changes in Financial Position

Cash provided by operating activities amounted to $22.2 million for the year ended January 31, 1998, as against $30.1 million the preceding year.

Cash used in investing activities, amounting to $776.2 million for the year ended January 31, 1998, compared with $324.2 million last year, were used to support BC's investments in finance receivables and other.

Cash provided by financing activities amounted to $884.9 million for the year ended January 31, 1998, compared with $296.1 million the previous year, and includes the amounts of short-term borrowings and long-term debt directed towards enhancing the future growth and financial health of BC.

In 1997-98, the combination of cash related to operating, investing and financing activities increased the cash position from $6.6 million at the beginning of the year to $137.5 million at year-end.

Year 2000

The Corporation has examined the risks associated with the year 2000, as regards computer systems and applications using a two-digit code to designate a year. At century change, date-sensitive systems will recognize code 00 as the year 1900, or not at all, thereby causing incorrect processing of financial and operational information.

In each industry segment, working groups have been assessing and implementing year 2000 compliance programs, modifications to information systems by internal or external resources, installation of new systems and supplier monitoring since 1996.

Management periodically revises the evolution of the compliance issue and does not anticipate to date any material impact on its operations, although there can be no assurance that all these modifications will be successful. However, costs incurred to date and anticipated to be incurred in connection with these modifications have not had, and will not have, a material impact on the financial position of the Corporation.

Future Prospects

Bombardier's policy regarding additions to fixed assets calls for reinvesting an amount equivalent to the sum of the depreciation of fixed assets plus 50% of consolidated net income.

Dividends paid on common shares and Series 1 and Series 2 preferred shares totalled $115.5 million in fiscal year 1997-98. Based on the rate of the quarterly dividend payable on May 31, 1998 for common shares and on the current annual dividend declared for Series 2 preferred shares, dividend payments are expected to be $133.5 million in 1998-99.

In view of the foregoing, the Corporation considers that its present cash resources, the expected cash flow and its other sources of financing will enable the Corporation to implement its investment program, develop new aircraft models, support the vigorous growth of the business, pay dividends and meet all of its financial obligations.

Risk and Uncertainties

The Corporation operates in different industry segments that involve various risk factors and uncertainties which are carefully considered in the Corporation's management policies.

The risks associated with the aerospace industry segment comprise, among others, risks related to developing new products in keeping with planned budget, the approval of new products by regulatory bodies and compliance with the contractual commitments for delivery, risks associated with product performance, the settling of disputes concerning collective agreements and their renewal, as well as risks related to the performance of certain key suppliers operating in Canada or abroad. The Corporation is also faced with a number of external risk factors, in particular, government policies related to the import and export restrictions imposed by certain countries on its products as well as other conditions which could affect demand for some of its products, such as gas prices, political instability and economic growth.

The recreational products industry segment essentially bears risks associated with volatile demand for consumer products, weather conditions as well as legislation and policies on issues of safety and the environment.

In addition to the above-mentioned risks, the transportation and services industry segments bear risks related to changing priorities and possible spending cuts by certain government agencies.

Issues of currency fluctuations permeate the daily decisions of the Corporation, which presents its financial statements in Canadian dollars while generating more than 88% of its revenues outside Canada in various foreign currencies. The Corporation protects itself against such currency fluctuations in a number of ways, including borrowing in foreign currencies and hedging against fluctuations on long-term contracts signed in foreign currencies. However, its recreational products, transportation equipment and aircraft produced in Canada and sold in export markets remain vulnerable to these fluctuations. Thus, in the normal course of business, the Corporation has entered into foreign currency forward contracts with expiry dates spread mainly until the year 2000, to manage its currency risk. Note 18 to the Consolidated Financial Statements provides details on these contracts.

An increasing proportion of the Corporation's worldwide revenues are denominated in US dollars. The Corporation estimates that a one cent change in the value of the Canadian dollar would have impacted income before income taxes by an approximate amount of $8.9 million before taking into account any effect of derivative instruments. For the year ended January 31, 1998, the US dollar traded at an average of $1.3923 Canadian, compared with $1.3620 Canadian during 1996-97, for an average appreciation of 2.22%.

While low interest rates in Canada are favorable to investments, they do not provide the Corporation with any international competitive advantage as its key competitors are located in countries where low interest rates also prevail.

A potential North American economic slowdown might create some difficulties for BC's clients and, consequently, have a negative impact on BC's portfolio. However, the diversity of BC's portfolio offers reasonable protection as discussed in note 3 to the Consolidated Financial Statements.

Commitments and Contingencies

As described in note 20 to the Consolidated Financial Statements, in connection with the sale of aircraft, the Corporation occasionally provides financial support to its customers in various forms. The risks related to these guarantees depend on many factors such as the financial health of the customers and certain government agencies which jointly assume a portion of the risk, the leasing and resale value of aircraft and the existing market conditions for each model of aircraft. The Corporation's officers regularly conduct an in-depth review of the current economic conditions regarding each of these risks and carefully monitor any changes therein.

The Corporation is occasionally involved in legal proceedings, claims, investigations and other legal matters in connection with its products and contracts. It is the Corporation's opinion that the costs incurred to date and those it anticipates incurring in connection with these contingencies have not had, and will not have, a material impact on its financial position.

BOMBARDIER

Financial Section

Bombardier Inc.

OPERATIONS SUMMARY
(restated)
(millions of Canadian dollars, except per share amounts)

For the years ended January 31	**1998**	1997	1996
Revenues by continuing industry segment			
Aerospace	**$ 4 632.0**	$ 4 036.7	$ 3 508.7
Recreational Products	**1 632.7**	1 865.6	1 554.2
Transportation	**1 688.1**	1 599.4	1 574.7
Services	**389.7**	378.8	399.1
BC	**352.4**	244.6	220.0
Intersegment eliminations	**(186.0)**	(149.4)	(133.3)
External revenues	**$ 8 508.9**	$ 7 975.7	$ 7 123.4
Income (loss) by continuing industry segment			
Aerospace	**$ 461.5**	$ 270.2	$ 143.1
Recreational Products	**1.4**	212.3	176.3
Transportation	**84.6**	62.9	99.9
Services	**15.6**	14.0	19.2
BC	**64.1**	46.9	28.7
Total	**627.2**	606.3	467.2
Write-down of investment in Eurotunnel share units	**—**	—	231.4
Income from continuing operations before income taxes	**627.2**	606.3	235.8
Income taxes	**207.0**	200.1	77.8
Net income from continuing operations	**420.2**	406.2	158.0
Net loss from discontinued operations	**—**	—	—
Net income	**$ 420.2**	$ 406.2	$ 158.0[1]
Per common share			
Income from continuing operations	**$ 1.18**	$ 1.18	$ 0.45[1]
Net income	**$ 1.18**	$ 1.18	$ 0.45[1]

GENERAL INFORMATION
(millions of Canadian dollars, except per share amounts)

Export revenues from Canada	**$ 4 642.2**	$ 4 532.7	$ 3 537.8
Additions to fixed assets	**$ 262.6**	$ 232.4	$ 297.8
Depreciation and amortization	**$ 180.1**	$ 165.8	$ 158.3
Dividend per common share			
Class A	**$ 0.30000**	$ 0.20000	$ 0.20000
Class B	**$ 0.30625**	$ 0.20625	$ 0.20625
Number of common shares (millions)	**339.5**	337.6	335.0
Book value per common share	**$ 7.14**	$ 6.01	$ 4.92
Shareholders of record	**10 781**	11 541	9 873

MARKET PRICE RANGE
(Canadian dollars)

Class A			
High	**$ 33.95**	$ 26.60	$ 20.38
Low	**25.00**	17.75	11.44
Close	**28.25**	26.10	20.38
Class B			
High	**$ 34.00**	$ 26.40	$ 20.13
Low	**24.80**	17.50	11.31
Close	**28.10**	26.00	19.88

(1) The effect of the write-down of investment in Eurotunnel share units on the net income amounts to $155.0 million ($0.47 per common share). Exclusive of this write-down, the net income would then be $313.0 million ($0.92 per common share).

1995	1994	1993	1992	1991	1990	1989
$ 3 157.3	$ 2 395.2	$ 2 428.8	$ 1 713.2	$ 1 583.9	$ 886.0	$ 630.7
1 048.6	729.5	506.4	352.9	362.2	355.7	274.3
1 309.6	1 311.5	1 237.6	725.6	697.1	639.5	311.3
322.4	246.6	224.6	225.9	198.3	212.6	179.9
166.0	133.5	77.5	63.3	63.2	60.0	36.5
(60.9)	(47.5)	(26.9)	(22.3)	(12.4)	(10.5)	(6.7)
$ 5 943.0	$ 4 768.8	$ 4 448.0	$ 3 058.6	$ 2 892.3	$ 2 143.3	$ 1 426.0
$ 139.7	$ 141.7	$ 188.1	$ 137.1	$ 134.5	$ 76.0	$ 35.4
116.8	76.6	28.4	(6.8)	(21.9)	11.0	14.2
66.0	(24.0)	(71.4)	4.2	20.7	17.0	46.6
19.7	10.7	4.3	2.6	1.8	12.0	8.2
11.5	4.8	2.9	(15.7)	(14.6)	1.2	4.4
353.7	209.8	152.3	121.4	120.5	117.2	108.8
—	—	—	—	—	—	—
353.7	209.8	152.3	121.4	120.5	117.2	108.8
106.4	32.5	18.6	13.7	20.4	25.7	19.9
247.3	177.3	133.7	107.7	100.1	91.5	88.9
—	—	—	—	—	—	(20.6)
$ 247.3	$ 177.3	$ 133.7	$ 107.7	$ 100.1	$ 91.5	$ 68.3
$ 0.73	$ 0.56	$ 0.43	$ 0.36	$ 0.35	$ 0.34	$ 0.34
$ 0.73	$ 0.56	$ 0.43	$ 0.36	$ 0.35	$ 0.34	$ 0.26
$ 2 960.3	$ 2 252.1	$ 1 950.8	$ 1 084.5	$ 975.8	$ 1 245.3	$ 782.0
$ 176.0	$ 169.8	$ 227.8	$ 161.5	$ 162.2	$ 93.1	$ 52.7
$ 131.6	$ 124.6	$ 101.3	$ 75.3	$ 76.8	$ 43.6	$ 40.1
$ 0.15000	$ 0.10000	$ 0.10000	$ 0.08000	$ 0.08000	$ 0.06250	$ 0.05500
$ 0.15625	$ 0.10625	$ 0.10625	$ 0.08625	$ 0.08625	$ 0.06875	$ 0.06125
331.4	329.9	308.6	304.7	282.9	262.8	251.3
$ 4.85	$ 4.05	$ 3.04	$ 2.80	$ 2.30	$ 1.76	$ 1.46
8 776	9 108	9 534	8 735	9 315	10 025	10 707
$ 12.50	$ 11.00	$ 8.69	$ 8.75	$ 5.16	$ 4.50	$ 3.38
9.00	4.82	5.32	4.19	3.63	2.78	1.97
11.44	10.50	5.94	8.57	4.22	3.91	3.35
$ 12.63	$ 10.94	$ 8.63	$ 8.63	$ 5.16	$ 4.50	$ 3.41
8.88	4.82	5.19	3.88	3.22	2.78	1.97
11.38	10.57	5.82	8.57	3.94	3.82	3.35

CONSOLIDATED BALANCE SHEETS
(restated)
(millions of Canadian dollars)

As at January 31	**1998**	1997	1996
BOMBARDIER INC. CONSOLIDATED			
Cash and term deposits	**$ 1 227.7**	$ 895.7	$ 536.6
Accounts receivable	**693.2**	358.4	449.0
Finance receivables and other	**2 989.4**	1 811.4	1 456.2
Inventories	**3 790.9**	3 455.2	2 594.9
Fixed assets	**1 646.7**	1 200.0	1 142.0
Other assets	**227.3**	229.6	213.9
Total assets	**$ 10 575.2**	$ 7 950.3	$ 6 392.6
Short-term borrowings	**$ 2 265.6**	$ 1 402.4	$ 840.9
Accounts payable and accrued liabilities	**2 663.0**	2 124.6	1 875.0
Advances and progress billings in excess of related costs	**851.6**	591.4	295.7
Long-term debt	**1 548.7**	1 354.9	1 282.7
Other liabilities	**357.0**	264.4	279.4
Convertible notes – equity component	**165.8**	152.3	139.9
Preferred shares	**300.0**	30.9	30.9
Common shareholders' equity	**2 423.5**	2 029.4	1 648.1
Total liabilities and shareholders' equity	**$ 10 575.2**	$ 7 950.3	$ 6 392.6
BOMBARDIER			
Cash and term deposits	**$ 1 090.2**	$ 889.1	$ 532.0
Accounts receivable	**693.2**	358.4	449.0
Finance receivables and other	**496.3**	137.3	47.2
Inventories	**3 790.9**	3 455.2	2 594.9
Fixed assets	**1 574.1**	1 138.8	1 079.1
Investment in BC	**353.3**	288.7	307.0
Other assets	**182.2**	183.6	169.1
Total assets	**$ 8 180.2**	$ 6 451.1	$ 5 178.3
Short-term borrowings	**$ 417.7**	$ 167.4	$ 38.7
Accounts payable and accrued liabilities	**2 543.7**	1 993.0	1 746.7
Advances and progress billings in excess of related costs	**851.6**	591.4	295.7
Long-term debt	**1 117.1**	1 233.3	1 020.5
Other liabilities	**360.8**	253.4	257.8
Convertible notes – equity component	**165.8**	152.3	139.9
Preferred shares	**300.0**	30.9	30.9
Common shareholders' equity	**2 423.5**	2 029.4	1 648.1
Total liabilities and shareholders' equity	**$ 8 180.2**	$ 6 451.1	$ 5 178.3
BC			
Cash and term deposits	**$ 137.5**	$ 6.6	$ 4.6
Finance receivables and other	**2 493.1**	1 674.1	1 409.0
Fixed assets	**72.6**	61.2	62.9
Other assets	**58.9**	46.0	50.1
Total assets	**$ 2 762.1**	$ 1 787.9	$ 1 526.6
Short-term borrowings	**$ 1 847.9**	$ 1 235.0	$ 802.2
Accounts payable and accrued liabilities	**119.3**	131.6	128.3
Long-term debt	**431.6**	121.6	262.2
Other liabilities	**10.0**	11.0	26.9
Preferred shares	**—**	—	—
Investment in BC	**353.3**	288.7	307.0
Total liabilities and shareholders' equity	**$ 2 762.1**	$ 1 787.9	$ 1 526.6

1995	1994	1993	1992	1991	1990	1989
$ 425.1	$ 633.1	$ 235.1	$ 179.2	$ 87.5	$ 84.0	$ 150.0
667.4	320.8	380.4	360.1	413.7	428.8	174.0
1 121.2	776.6	942.1	640.8	491.3	458.0	307.5
1 914.4	1 738.1	1 782.9	1 200.7	984.2	579.7	220.2
932.1	842.0	813.3	626.8	533.5	335.7	262.1
401.6	144.1	86.4	47.1	45.0	46.8	36.9
$ 5 461.8	$ 4 454.7	$ 4 240.2	$ 3 054.7	$ 2 555.2	$ 1 933.0	$ 1 150.7
$ 764.3	$ 423.6	$ 884.9	$ 640.1	$ 558.2	$ 376.8	$ 153.2
1 508.8	1 299.8	1 318.2	894.8	832.3	684.7	354.4
195.0	—	—	—	—	—	—
1 043.2	1 119.1	789.4	474.2	344.6	175.3	70.6
184.1	125.6	168.2	56.6	64.7	54.0	47.3
128.6	118.1	108.5	99.7	66.8	21.9	—
31.5	33.1	34.1	35.7	37.4	157.7	158.3
1 606.3	1 335.4	936.9	853.6	651.2	462.6	366.9
$ 5 461.8	$ 4 454.7	$ 4 240.2	$ 3 054.7	$ 2 555.2	$ 1 933.0	$ 1 150.7
$ 419.7	$ 606.3	$ 233.2	$ 177.6	$ 87.2	$ 79.7	$ 150.0
667.4	320.8	380.4	366.0	413.6	428.8	174.0
—	—	—	—	—	—	—
1 914.4	1 738.1	1 782.9	1 200.7	984.2	579.7	220.2
868.2	775.3	774.2	603.8	514.7	327.5	259.9
239.5	222.5	106.5	87.0	68.5	60.4	30.4
357.8	108.8	63.2	47.1	45.0	46.8	36.9
$ 4 467.0	$ 3 771.8	$ 3 340.4	$ 2 482.2	$ 2 113.2	$ 1 522.9	$ 871.4
$ 153.4	$ 86.4	$ 288.9	$ 105.1	$ 135.6	$ 134.4	$ 5.4
1 401.8	1 217.9	1 248.3	857.8	813.4	635.6	341.2
195.0	—	—	—	—	—	—
774.1	860.6	556.2	474.2	344.6	175.3	70.6
176.3	120.3	167.5	56.1	64.2	54.0	47.3
128.6	118.1	108.5	99.7	66.8	21.9	—
31.5	33.1	34.1	35.7	37.4	39.1	40.0
1 606.3	1 335.4	936.9	853.6	651.2	462.6	366.9
$ 4 467.0	$ 3 771.8	$ 3 340.4	$ 2 482.2	$ 2 113.2	$ 1 522.9	$ 871.4
$ 5.4	$ 26.8	$ 1.9	$ 1.6	$ 0.3	$ 4.3	$ —
1 121.2	764.9	942.1	640.8	491.4	458.0	307.5
63.9	66.7	39.1	4.1	5.0	8.2	2.2
47.1	47.0	23.2	18.9	13.8	—	—
$ 1 237.6	$ 905.4	$ 1 006.3	$ 665.4	$ 510.5	$ 470.5	$ 309.7
$ 610.9	$ 337.2	$ 596.0	$ 535.0	$ 422.6	$ 242.4	$ 147.8
107.0	81.9	69.9	42.9	18.9	49.1	13.2
269.1	258.5	233.2	—	—	—	—
11.1	5.3	0.7	0.5	0.5	—	—
—	—	—	—	—	118.6	118.3
239.5	222.5	106.5	87.0	68.5	60.4	30.4
$ 1 237.6	$ 905.4	$ 1 006.3	$ 665.4	$ 510.5	$ 470.5	$ 309.7

QUARTERLY DATA
(restated) (unaudited)
(millions of Canadian dollars, except per share amounts)

For the years ended January 31	1998 Total	1997 Total	1998 First Quarter
Revenues			
Aerospace	$ 4 632.0	$ 4 036.7	$ 725.6
Recreational Products	1 632.7	1 865.6	411.7
Transportation	1 688.1	1 599.4	407.7
Services	389.7	378.8	82.1
BC	352.4	244.6	75.5
Intersegment eliminations	(186.0)	(149.4)	(41.2)
External revenues	$ 8 508.9	$ 7 975.7	$ 1 661.4
Income (loss) before income taxes			
Aerospace	$ 461.5	$ 270.2	$ 50.9
Recreational Products	1.4	212.3	40.2
Transportation	84.6	62.9	16.3
Services	15.6	14.0	4.4
BC	64.1	46.9	12.8
Total	627.2	606.3	124.6
Income taxes	207.0	200.1	41.1
Net income	$ 420.2	$ 406.2	$ 83.5

Per common share			
Net income	$ 1.18	$ 1.18	$ 0.24
Dividend – Class B Share	0.30625	0.20625	0.08125
Market price range of Class B Share			
High	34.00	26.40	28.60
Low	24.80	17.50	24.80

Net segmented assets	
Aerospace	$ 3 354.2
Recreational Products	301.7
Transportation	(398.1)
Services	49.5
BC	306.7
	3 614.0
Accounts payable and accrued liabilities	1 945.8
Advances and progress billings in excess of related costs	551.8
Cash and term deposits	466.6
Other assets	55.5
Total assets – Bombardier	6 633.7
Investment in BC	(306.7)
Deferred income taxes	—
Total assets – BC	2 053.4
Total assets – Bombardier Inc. consolidated	$ 8 380.4

1997 First Quarter	**1998 Second Quarter**	1997 Second Quarter	**1998 Third Quarter**	1997 Third Quarter	**1998 Fourth Quarter**	1997 Fourth Quarter
$ 732.6	**$ 939.1**	$ 917.2	**$ 1 213.2**	$ 1 060.6	**$ 1 754.1**	$ 1 326.3
366.8	**450.8**	531.0	**418.0**	374.6	**352.2**	593.2
393.1	**444.6**	365.8	**345.0**	397.2	**490.8**	443.3
93.2	**77.4**	74.6	**101.4**	110.4	**128.8**	100.6
60.3	**85.2**	62.0	**92.6**	57.5	**99.1**	64.8
(42.2)	**(37.6)**	(35.4)	**(43.7)**	(54.0)	**(63.5)**	(17.8)
$ 1 603.8	**$ 1 959.5**	$ 1 915.2	**$ 2 126.5**	$ 1 946.3	**$ 2 761.5**	$ 2 510.4
$ 44.4	**$ 88.4**	$ 50.0	**$ 102.7**	$ 59.3	**$ 219.5**	$ 116.5
38.2	**3.9**	56.1	**6.7**	45.6	**(49.4)**	72.4
17.3	**20.7**	14.3	**18.5**	16.7	**29.1**	14.6
3.9	**3.8**	3.1	**5.0**	4.7	**2.4**	2.3
10.9	**14.2**	11.2	**13.9**	10.7	**23.2**	14.1
114.7	**131.0**	134.7	**146.8**	137.0	**224.8**	219.9
37.9	**43.2**	44.4	**48.5**	45.2	**74.2**	72.6
$ 76.8	**$ 87.8**	$ 90.3	**$ 98.3**	$ 91.8	**$ 150.6**	$ 147.3
$ 0.22	**$ 0.24**	$ 0.26	**$ 0.27**	$ 0.27	**$ 0.43**	$ 0.43
0.05625	**0.07500**	0.05000	**0.07500**	0.05000	**0.07500**	0.05000
21.75	**34.00**	20.60	**33.70**	21.75	**30.35**	26.40
18.90	**27.35**	17.70	**25.25**	17.50	**26.30**	21.30
$ 2 335.0	**$ 3 677.5**	$ 2 860.2	**$ 3 737.7**	$ 3 126.3	**$ 3 552.4**	$ 2 904.5
290.4	**364.0**	265.5	**350.4**	258.6	**342.2**	209.4
(196.3)	**(308.2)**	(186.0)	**(412.5)**	(245.7)	**(688.7)**	(538.0)
98.6	**64.0**	95.7	**74.4**	111.2	**82.7**	61.1
274.6	**297.3**	247.6	**301.4**	266.1	**353.3**	288.7
2 802.3	**4 094.6**	3 283.0	**4 051.4**	3 516.5	**3 641.9**	2 925.7
1 817.6	**1 692.3**	1 636.2	**1 846.6**	1 800.9	**2 543.7**	1 993.0
308.3	**525.3**	318.3	**535.7**	330.8	**851.6**	591.4
510.6	**404.8**	256.9	**511.4**	199.6	**1 090.2**	889.1
65.2	**54.1**	67.4	**53.6**	62.8	**52.8**	51.9
5 504.0	**6 771.1**	5 561.8	**6 998.7**	5 910.6	**8 180.2**	6 451.1
(274.6)	**(297.3)**	(247.6)	**(301.4)**	(266.1)	**(353.3)**	(288.7)
(4.9)	**(2.6)**	(2.7)	**(10.2)**	(2.0)	**(13.8)**	—
1 619.3	**2 022.4**	1 320.5	**2 488.2**	1 688.8	**2 762.1**	1 787.9
$ 6 843.8	**$ 8 493.6**	$ 6 632.0	**$ 9 175.3**	$ 7 331.3	**$ 10 575.2**	$ 7 950.3

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Bombardier Inc.** and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. The financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Bombardier Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of a majority of outside Directors. The committee meets periodically with Management, as well as the internal auditors and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements and the external auditors' report. The committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

The financial statements have been audited by Caron Bélanger Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Paul H. Larose, CA
Vice President, Finance

April 21, 1998

Auditors' Report

To the Shareholders of **Bombardier Inc.**

We have audited the consolidated balance sheets of **Bombardier Inc.** (a Canadian corporation) as at January 31, 1998 and 1997 and the consolidated statements of shareholders' equity, income and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Caron Bélanger Ernst & Young
Chartered Accountants
Montréal, Canada
February 27, 1998

Consolidated Balance Sheets

As at January 31, 1998 and 1997 (millions of Canadian dollars)

		Bombardier Inc. consolidated		Bombardier		BC	
	Notes	**1998**	1997	**1998**	1997	**1998**	1997
Assets							
Cash and term deposits		**$ 1 227.7**	$ 895.7	**$ 1 090.2**	$ 889.1	**$ 137.5**	$ 6.6
Accounts receivable	2	**693.2**	358.4	**693.2**	358.4	**—**	—
Finance receivables and other	3	**2 989.4**	1 811.4	**496.3**	137.3	**2 493.1**	1 674.1
Inventories	4	**3 790.9**	3 455.2	**3 790.9**	3 455.2	**—**	—
Fixed assets	5	**1 646.7**	1 200.0	**1 574.1**	1 138.8	**72.6**	61.2
Investment in BC		**—**	—	**353.3**	288.7	**—**	—
Other assets	6	**227.3**	229.6	**182.2**	183.6	**58.9**	46.0
		$ 10 575.2	$ 7 950.3	**$ 8 180.2**	$ 6 451.1	**$ 2 762.1**	$ 1 787.9
Liabilities							
Short-term borrowings	7	**$ 2 265.6**	$ 1 402.4	**$ 417.7**	$ 167.4	**$ 1 847.9**	$ 1 235.0
Accounts payable and accrued liabilities		**2 663.0**	2 124.6	**2 543.7**	1 993.0	**119.3**	131.6
Advances and progress billings in excess of related costs		**851.6**	591.4	**851.6**	591.4	**—**	—
Long-term debt	8	**1 548.7**	1 354.9	**1 117.1**	1 233.3	**431.6**	121.6
Other liabilities	9	**357.0**	264.4	**360.8**	253.4	**10.0**	11.0
		7 685.9	5 737.7	**5 290.9**	4 238.5	**2 408.8**	1 499.2
Shareholders' equity (Investment in BC)		**2 889.3**	2 212.6	**2 889.3**	2 212.6	**353.3**	288.7
		$ 10 575.2	$ 7 950.3	**$ 8 180.2**	$ 6 451.1	**$ 2 762.1**	$ 1 787.9

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation.

On behalf of the Board of Directors,

Laurent Beaudoin
Director

Pierre Legrand
Director

Consolidated Statements of Shareholders' Equity

For the years ended January 31, 1998 and 1997 (millions of Canadian dollars)

	Notes	1998 Number	1998 Amount	1997 Number	1997 Amount
Share capital	11				
Preferred shares					
Series 1					
Balance at beginning of year		**1 235 900**	**$ 30.9**	1 236 900	$ 30.9
Purchased for cancellation		**(1 000)**	**—**	(1 000)	—
Redeemed		**(1 234 900)**	**(30.9)**	—	—
Balance at end of year		**—**	**—**	1 235 900	30.9
Series 2					
Issued for cash		**12 000 000**	**300.0**	—	—
Balance at end of year		**12 000 000**	**300.0**	—	—
Balance at end of year – preferred shares		**12 000 000**	**300.0**	1 235 900	30.9
Common shares					
Class A Shares (multiple voting)					
Balance at beginning of year		**88 646 249**	**49.3**	88 759 138	49.4
Converted from Class A to Class B		**(13 420)**	**—**	(112 889)	(0.1)
Balance at end of year		**88 632 829**	**49.3**	88 646 249	49.3
Class B Subordinate Voting Shares					
Balance at beginning of year		**248 991 788**	**713.9**	246 277 373	682.7
Issued under the share option plan	12	**794 164**	**5.5**	1 508 454	7.1
Issued to employees for cash		**1 027 023**	**27.5**	1 093 072	24.0
Converted from Class A to Class B		**13 420**	**—**	112 889	0.1
Balance at end of year		**250 826 395**	**746.9**	248 991 788	713.9
Balance at end of year – common shares		**339 459 224**	**796.2**	337 638 037	763.2
Total – share capital			**1 096.2**		794.1
Retained earnings					
Balance at beginning of year			**1 201.1**		873.4
Net income			**420.2**		406.2
Issuance costs for preferred shares – Series 2			**(5.1)**		—
Interest on convertible notes – equity component			**(8.5)**		(7.4)
Dividends:					
Preferred shares			**(12.4)**		(2.3)
Common shares			**(103.1)**		(68.8)
Tax related to dividends on preferred shares – Series 2			**(1.2)**		—
Balance at end of year			**1 491.0**		1 201.1
Convertible notes – equity component	10		**165.8**		152.3
Deferred translation adjustments	13		**136.3**		65.1
Total – shareholders' equity			**$ 2 889.3**		$ 2 212.6

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For the years ended January 31, 1998 and 1997 (millions of Canadian dollars except per share amounts)

		Bombardier Inc. consolidated		Bombardier		BC	
	Notes	**1998**	1997	**1998**	1997 (restated – note 22)	**1998**	1997 (restated – note 22)
Revenues		**$ 8 508.9**	$ 7 975.7	**$ 8 264.1**	$ 7 814.1	**$ 352.4**	$ 244.6
Expenses							
Cost of sales and operating expenses	14, 15	**7 614.9**	7 137.3	**7 439.0**	7 026.7	**283.5**	193.6
Depreciation and amortization		**180.1**	165.8	**175.3**	161.7	**4.8**	4.1
Interest expense	15	**86.7**	66.3	**86.7**	66.3	**—**	—
Income from BC		**—**	—	**(64.1)**	(46.9)	**—**	—
		7 881.7	7 369.4	**7 636.9**	7 207.8	**288.3**	197.7
Income before income taxes		**627.2**	606.3	**627.2**	606.3	**64.1**	46.9
Income taxes	16	**207.0**	200.1	**207.0**	200.1	**26.6**	19.6
Net income		**$ 420.2**	$ 406.2	**$ 420.2**	$ 406.2	**$ 37.5**	$ 27.3
Earnings per share:							
Basic		**$ 1.18**	$ 1.18				
Fully diluted		**$ 1.17**	$ 1.16				
Average number of common shares outstanding during the year		**338 270 503**	336 082 947				

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation.

Consolidated Statements of Changes in Financial Position

For the years ended January 31, 1998 and 1997 (millions of Canadian dollars)

		Bombardier Inc. consolidated		Bombardier		BC	
	Notes	**1998**	1997	**1998**	1997 (restated – note 22)	**1998**	1997 (restated – note 22)
Operating activities							
Net income		**$ 420.2**	$ 406.2	**$ 420.2**	$ 406.2	**$ 37.5**	$ 27.3
Non-cash items:							
Depreciation and amortization		**180.1**	165.8	**175.3**	161.7	**4.8**	4.1
Net income from BC		**—**	—	**(37.5)**	(27.3)	**—**	—
Provision for credit losses – BC		**8.6**	6.0	**—**	—	**8.6**	6.0
Deferred income taxes		**144.2**	75.3	**158.8**	69.2	**(14.6)**	6.1
Net changes in non-cash balances related to operations	17	**(336.3)**	(212.4)	**(322.2)**	(199.0)	**(14.1)**	(13.4)
Cash provided by operating activities		**416.8**	440.9	**394.6**	410.8	**22.2**	30.1
Investing activities							
Additions to fixed assets		**(262.6)**	(232.4)	**(247.4)**	(229.9)	**(15.2)**	(2.5)
Investment in finance receivables and other		**(1 173.3)**	(361.2)	**(359.0)**	(90.1)	**(814.3)**	(271.1)
Deferred translation adjustments		**112.4**	3.1	**76.7**	11.5	**35.7**	(8.4)
Acquisitions of businesses, net of cash acquired	1	**144.3**	(82.8)	**144.3**	(82.8)	**—**	—
Investment in BC		**—**	—	**(11.4)**	41.0	**11.4**	(41.0)
Other		**(2.1)**	(3.6)	**(8.3)**	(2.4)	**6.2**	(1.2)
Cash used in investing activities		**(1 181.3)**	(676.9)	**(405.1)**	(352.7)	**(776.2)**	(324.2)
Financing activities							
Net variation in bank loans – BC		**594.1**	432.6	**—**	—	**594.1**	432.6
Proceeds from long-term debt		**310.0**	489.4	**7.2**	422.0	**302.8**	67.4
Repayment of long-term debt		**(252.6)**	(249.3)	**(240.6)**	(45.4)	**(12.0)**	(203.9)
Provision for pension costs		**(59.5)**	(25.9)	**(59.5)**	(25.9)	**—**	—
Issuance of shares, net of related costs		**325.4**	31.1	**325.4**	31.1	**—**	—
Redemption of preferred shares		**(30.9)**	—	**(30.9)**	—	**—**	—
Dividends		**(120.0)**	(71.1)	**(120.0)**	(71.1)	**—**	—
Cash provided by (used in) financing activities		**766.5**	606.8	**(118.4)**	310.7	**884.9**	296.1
Increase (decrease) in cash		**2.0**	370.8	**(128.9)**	368.8	**130.9**	2.0
Cash position at beginning of year		**895.7**	524.9	**889.1**	520.3	**6.6**	4.6
Cash position at end of year		**$ 897.7**	$ 895.7	**$ 760.2**	$ 889.1	**$ 137.5**	$ 6.6

Cash position represents cash, term deposits, notes payable and bank loans of Bombardier.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements and discuss the financial statement presentation.

Consolidated financial statement presentation

The consolidated balance sheets are presented in an unclassified format because the activities of Bombardier Inc. and its subsidiaries (the "Corporation") are concentrated in five main segments, each having its own operating cycle. Financial services operations and real estate activities, being distinct from Bombardier's other activities, are shown in a separate column (BC) in the consolidated financial statements.

The descriptions of the columns shown in these financial statements are as follows:

Bombardier Inc. consolidated

This column represents all of the activities of the Corporation on a consolidated basis, after elimination of balances and transactions between Bombardier and BC.

Bombardier

This column represents the activities of the Corporation's three manufacturing segments (aerospace, recreational products and transportation) and one services segment. The investment of Bombardier in BC is accounted for on an equity basis. These segments are regrouped and referred to as "Bombardier" and the intercompany transactions have been eliminated.

BC

Bombardier Capital ("BC") represents the capital-intensive operations of the Corporation, namely the financial services operations and real estate activities. The intercompany transactions have been eliminated. Investment in BC includes shareholders' equity as well as advances from Bombardier amounting to $96.6 million as at January 31, 1998 ($78.2 million as at January 31, 1997) which have been shown outside of shareholders' equity in prior years.

BOMBARDIER INC. CONSOLIDATED – SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of Bombardier Inc. and its subsidiaries, substantially all of which are wholly owned. They also include the Corporation's proportionate share of its joint ventures.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Translation of foreign currencies

Foreign operations are classified as integrated or self-sustaining. All significant foreign investees are classified as self-sustaining entities.

a) Self-sustaining foreign operations

All assets and liabilities are translated at exchange rates in effect at year-end. Revenues and expenses are translated at the average rates of exchange for the period. The resulting net gains or losses, including those related to debt denominated in a foreign currency and designated as a hedge of net investments in self-sustaining foreign operations, are shown under "Deferred translation adjustments" in shareholders' equity.

b) Integrated foreign operations and accounts in foreign currencies

Integrated foreign operations and accounts in foreign currencies are translated using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than depreciation, which is translated at the same rates as the related fixed assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the period. Translation gains or losses are included in the statement of income, except those related to the translation of debt, which are deferred and amortized over the remaining life of the debt on a straight-line basis or shown under "Deferred translation adjustments" in shareholders' equity (see **a)** above).

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	10 to 40 years
Equipment	2 to 15 years
Other	3 to 15 years

Assets under operating leases

Assets under operating leases are recorded at cost. Depreciation is computed under the straight-line method over periods representing their estimated useful lives and not exceeding 20 years.

BOMBARDIER INC.
CONSOLIDATED –
SIGNIFICANT
ACCOUNTING
POLICIES (cont'd)

Income taxes

The Corporation follows the deferred income tax allocation method in providing for income taxes. Under this method, timing differences between income for accounting purposes and income for tax purposes give rise to deferred income taxes.

The undistributed earnings of foreign investees are considered to be permanently invested for their continuing operations; accordingly, no provisions are made for taxes which would become payable upon the distribution of such earnings to the parent company.

Earnings per share

Basic and fully diluted earnings per share are calculated using the weighted average number of Class A Shares (multiple voting) and Class B Subordinate Voting Shares outstanding during the year. Fully diluted earnings per share give effect to the exercise of all dilutive elements.

Pension costs and obligations

The Corporation maintains pension plans for the benefit of substantially all employees.

The pension obligations of the defined benefit pension plans are valued using an accrued benefit actuarial method and Management's best estimate assumptions. The assets of these pension plans are valued on the basis of market-related values. Current service costs are determined using the projected benefit method pro-rated on services. Adjustments arising from past service benefits and experience gains and losses are amortized on a straight-line basis over the average remaining service lives of the employee groups covered by the plans.

Costs related to post-retirement benefits other than pension costs offered to certain employees are recognized when paid by the Corporation.

Provision for credit losses

The Corporation maintains a provision for credit losses at an amount Management believes to be sufficient to provide adequate protection against future losses in the portfolio of finance receivables and other. The provision for credit losses is determined principally on the basis of actual experience and further provisions are also recorded to reflect Management's assessment of potential losses, including specific provisions for delinquent accounts.

Derivative financial instruments

The Corporation is party to a number of derivative financial instrument contracts, mainly foreign exchange contracts and interest-rate swap agreements used to manage currency and interest rate risks. Gains and losses on foreign exchange contracts entered into to hedge future transactions are deferred and included in the measurement of the related foreign currency transactions. Payments and receipts under interest-rate swap agreements are recognized as adjustments to interest expense on a basis that matches them with the related fluctuations in the interest receipts and payments under floating rate financial assets and liabilities.

Environmental obligations

Liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed.

Goodwill

Goodwill is stated at cost and is amortized under the straight-line method over its useful life for periods not exceeding 10 years. At each reporting date, the Corporation evaluates whether there has been a permanent impairment in the value of unamortized goodwill. In doing so, the Corporation estimates the recoverability of goodwill based on an estimate of the undiscounted cash flows over the remaining period of amortization of each business to which the goodwill relates.

Convertible notes

The Corporation's obligation to make future interest payments on its convertible notes is reflected as a long-term debt and is carried at the present value of such interest payments. Interest costs on this obligation are included in inventories of programs and recognized in income under the program accounting method and those related to the equity component are charged to retained earnings, net of income taxes. The present value of the principal is recorded in shareholders' equity and this equity component increases until October 1999 as a result of charges against retained earnings to reach an amount equal to the nominal value of the convertible notes at maturity.

Inventory valuation and revenue recognition

a) Raw materials, work in process and finished products

Raw materials, work in process and finished products are valued at the lower of cost (specific cost, average cost or first-in, first-out depending on the segment) and replacement cost (raw materials) or net realizable value. The cost of work in process and finished products includes the cost of raw materials, direct labour and related overhead, except for aircraft which are valued in accordance with program accounting.

b) Long-term contracts and programs

A significant portion of the Corporation's revenues is related to long-term contracts and aerospace programs.

- Long-term contracts

  Revenues and income from long-term contracts are recognized in accordance with the percentage-of-completion method of accounting. The degree of completion is generally determined by comparing the costs incurred to date to the total costs anticipated for the entire contract, excluding costs that are not representative of the measure of performance. Estimated revenues from long-term contracts include future revenues from claims when it is reasonably assured that such claims, resulting from work performed for customers in addition to the work contemplated in the original contracts, will result in additional revenues in an amount that can be reliably estimated.

  The effect of changes to total estimated income for each contract is recognized in the period in which the determination is made and losses, if any, are fully recognized when anticipated.

- Programs

  Inventory costs include raw materials, labour and certain general and administrative costs and comprise non-recurring costs (development, pre-production and tooling costs), production costs and excess over average production costs (production costs incurred, in the early stages of a program, in excess of the average estimated unit cost for the entire program).

  Non-recurring costs related to the early stages of the design of a modified or new aircraft are expensed until the results from the technical feasibility study and the market analysis of the program justify the deferral of these costs. Subsequent non-recurring costs are capitalized to the related program to the extent that their recovery can be regarded as reasonably assured.

  Sales of aircraft are recognized in relation to units delivered, and income from these sales is determined under the program accounting method. Under this method, the cost of sales of the aircraft is recorded at the estimated average unit cost computed as a percentage of the sale price of the aircraft. The estimated average unit cost is calculated by applying to the sale price of each aircraft the ratio of total estimated production costs for the entire program over the estimated sale price of all aircraft in the program, increased by the amortization of the non-recurring costs over a predetermined number of aircraft, generally less than the estimated number of aircraft to be sold under the corresponding program. In the early stages of a program, a constant gross margin is achieved by deferring a portion of the actual cost incurred for each unit delivered. This excess is being amortized against sales of aircraft anticipated to be produced later at lower-than-average costs, as a result of the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition and Management action.

  Commercial and business aircraft programs are based on long-term delivery forecasts, normally for quantities in excess of contractually firm orders. For new programs, the program quantity is initially based on an established number of units representing what Management believes is a conservative projection of the units to be sold.

  Estimates of revenues, cost of sales and delivery periods associated with forecasted orders are an integral component of program accounting, and Management's ability to reasonably estimate these amounts is a requirement for the use of program accounting. Revenues, costs and income are determined, in part, based on estimates. Adjustments of such estimates are accounted for prospectively with the exception of anticipated losses on specific programs which are recognized immediately in the period when losses are reasonably assured.

  Management periodically reviews its assumptions as to the size of the various programs, the estimated period over which the units will be delivered, the estimated future costs and revenues associated with the programs and, when required, revises the gross margin for the remaining term of the programs.

- Advances and progress billings

  Advances and progress billings received on contracts and programs, including proceeds received from the sale of rights arising from work performed under certain manufacturing contracts, are deducted from related costs in inventories. Advances and progress billings in excess of related costs are shown as liabilities.

- Financing costs

  The interest and financing costs relating to specific programs are included in program costs.

BC – SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

a) **Interest and rental income**

Interest income related to finance receivables is recognized on an accrual basis computed on the average daily finance receivables balance outstanding. Accrual of interest income is suspended when the account becomes 90 days overdue or may be suspended earlier if collection of an account becomes doubtful. Rental income from assets under operating leases is recognized over the life of the lease, on a straight-line basis.

b) **Sales of land held for development**

Revenues related to sales of land held for development are recognized when significant cash payments have been received and all material conditions related to the sales contract have been satisfied, including reasonable assurance of the collection of the sale proceeds.

c) **Sales of finance receivables and manufactured housing mortgage loans**

The Corporation sells to investors, typically at par, finance receivables as well as manufactured housing mortgage loans. Servicing rights and participation in certain excess cash flows from finance receivables and manufactured housing mortgage loans sold are retained by the Corporation.

A sale of finance receivables or manufactured housing mortgage loans is recognized when the significant risks and rewards of ownership have been transferred to the purchaser. Gains and losses on the sale of finance receivables or manufactured housing mortgage loans are calculated using prepayment, default and interest rate assumptions which the Corporation believes market participants would use for similar instruments. They represent the expected cash flows from the securitized assets less normal servicing fees and are charged to income. Expected cash flows are determined using market conditions at the date of sale. In subsequent periods, these estimates are revised as necessary for any reductions in expected future cash flows arising from adverse prepayment and loss experience by recording a charge to income. BC's interests in securitized finance receivables or manufactured housing mortgage loans are included in finance receivables and other, when the significant risks and rewards of ownership have not been transferred to the purchaser.

Net investment in direct financing leases

Certain equipment is leased under terms which transfer substantially all of the benefits and risks of ownership to customers. Consequently, these leases are accounted for as direct financing leases. Income is recognized over the terms of the applicable leases in a manner that produces a constant rate of return.

Land held for development

Land held for development is stated at the lower of cost and net realizable value. Direct carrying costs and other expenditures related to projects which are expected to be commercialized are capitalized.

Office buildings leased to Bombardier

Office buildings leased to Bombardier are stated at cost and depreciation is computed under the straight-line method over their estimated useful life of 40 years.

For the years ended January 31, 1998 and 1997 (tabular figures in millions of Canadian dollars, except share capital and share option plan)

1. ACQUISITIONS OF BUSINESSES

a) Deutsche Waggonbau AG

At year-end, the Corporation acquired for a cash consideration of $517.8 million, including acquisition costs, substantially all of the share capital of Deutsche Waggonbau AG, a German manufacturer of transportation equipment. This acquisition has been accounted for by the purchase method and the accounts have been consolidated from January 31, 1998.

Net assets acquired at fair value

Cash and term deposits		$ 662.1
Accounts receivable		184.6
Inventories	$ 136.5	
Less: Advances and progress billings	(110.6)	25.9
Fixed assets		328.5
		1 201.1
Accounts payable and accrued liabilities		(440.4)
Advances and progress billings in excess of related costs		(211.5)
Provision for pension costs		(31.4)
		(683.3)
Net assets acquired		$ 517.8

b) de Havilland Inc.

On January 28, 1997, the Corporation purchased the 49% interest in de Havilland Inc. owned by the Province of Ontario at its carrying amount of $49.0 million. As consideration, the Corporation issued a 15-year promissory note to the Province of Ontario.

c) Business jet completion assets

On December 9, 1996, the Corporation acquired for a cash consideration of $33.8 million the net assets of the business jet completion division of Innotech Aviation Ltd. located in Dorval (Québec). The allocation of the purchase price to the fair value of the net assets acquired resulted in $30.4 million attributed to goodwill.

2. ACCOUNTS RECEIVABLE

The accounts receivable are mainly concentrated in the transportation and aerospace segments (53% and 31%, respectively, as at January 31, 1998; 38% and 44%, respectively, as at January 31, 1997) and are mainly located in Europe and in North America (57% and 29%, respectively, as at January 31, 1998; 66% and 34%, respectively, as at January 31, 1997).

3. FINANCE RECEIVABLES AND OTHER

	1998	1997
Bombardier		
Loans receivable (note 18 a))	**$ 370.3**	$ 30.8
Assets under operating leases	**135.7**	116.6
Provision for credit losses	**(9.7)**	(10.1)
	496.3	137.3
BC		
Finance receivables	**977.5**	1 013.0
Manufactured housing mortgage loans	**77.9**	—
Loans receivable (note 18 a))	**746.4**	307.3
Recreational product loans	**104.7**	—
Assets under operating leases (note 18 a))	**170.7**	233.8
Net investment in direct financing leases	**384.6**	101.4
Other	**69.0**	47.7
Provision for credit losses	**(37.7)**	(29.1)
	2 493.1	1 674.1
Total	**$ 2 989.4**	$ 1 811.4

3. FINANCE RECEIVABLES AND OTHER (cont'd)

Finance receivables and manufactured housing mortgage loans

Finance receivables arise mainly from the financing of sales of products by manufacturers and distributors to dealers and are collateralized by the related inventory as well as generally secured by repurchase agreements. Under such agreements, BC may repossess the products from a dealer within a time period specified in the agreement and may require the distributors or manufacturers to repurchase them for a cash consideration equal to the unpaid balance.

BC has concluded credit agreements with US and Canadian investors allowing for an ongoing transfer of eligible finance receivables for which BC remains the servicer. The maximum amounts that can be sold under these credit agreements are US $627.1 million and $150.0 million as at January 31, 1998 (US $656.1 million and $100.0 million as at January 31, 1997). The outstanding balances are as follows:

	Finance receivables transferred as at January 31		Finance receivables sold as at January 31		Maturity	
	1998	1997	**1998**	1997	**1998**	1997
United States agreements	**$ 1 080.2**	$ 1 310.8	**$ 898.7**	$ 884.0	**2003**	2003
Canadian agreements	**161.2**	142.0	**140.0**	100.0	**2001**	1998

The excess of the finance receivables transferred to the investors over the amounts considered to be sold, amounting to $202.7 million as at January 31, 1998 ($468.8 million as at January 31, 1997), is included in finance receivables.

The financing terms of the finance receivables under management generally range from 3 to 20 months. BC has outstanding lines of credit with its customers related to the finance receivables under management totalling approximately $1 004.3 million and US $1 666.5 million as at January 31, 1998 ($574.7 million and US $1 535.1 million as at January 31, 1997), which may be reduced or revoked at any time depending on the dealers' and manufacturers' credit status. The portfolio bears interest at an average floating rate of 8.4% in Canada and 12% in the United States as at January 31, 1998 (10.4% and 11.6%, respectively, as at January 31, 1997).

The finance receivables include $351.8 million as at January 31, 1998 ($239.0 million as at January 31, 1997) acquired from Bombardier.

Manufactured housing mortgage loans consist of contractual promises by the buyers of manufactured housing units to pay amounts owed under retail instalment sales contracts, which also provide BC with a security interest in the housing units purchased. They bear interest at a weighted average rate of 10.5% as at January 31, 1998 and mature in different periods up to 2028.

During the year, BC created a US $250.0 million securitization conduit (the "Conduit") with a third-party bank-sponsored commercial paper conduit to finance the origination of manufactured housing mortgage loans. The Conduit will be in use until August 1998. Periodically, the Conduit will purchase a 100% interest in a designated pool of manufactured housing mortgage loans from BC pursuant to a Receivable Purchase Agreement dated August 26, 1997. Of the purchase price, 7.5% is held by a custodian in a reserve account. Once the amounts so purchased by the Conduit reach a sufficient size, BC has the option to issue a take-out term securitization transaction with third-party trusts through its own registration statement. As at January 31, 1998, $282.9 million (US $194.3 million) of manufactured housing mortgage loans had been sold to a third-party trust pursuant to this option, leaving $46.0 million (US $31.6 million) in the Conduit. As at January 31, 1998, BC retained an interest of $12.7 million (US $8.7 million) in the amount of manufactured housing mortgage loans transferred to the trust.

BC remains exposed to risks of default on the amount of finance receivables and manufactured housing mortgage loans under securitization. It has provided various credit enhancements in the form of cash reserve funds, future excess cash flows from the underlying pool of assets and subordination of its retained interest. Such credit enhancements aggregated to $131.4 million as at January 31, 1998 ($84.0 million as at January 31, 1997).

Loans receivable

Loans receivable represent progress payments and other amounts advanced to third parties mainly to finance the sale and leasing of aircraft and other products manufactured by Bombardier.

Bombardier loans receivable bear interest at a weighted average rate of 7.2% as at January 31, 1998 (8.5% as at January 31, 1997) and mature in different periods up to 2015. They include an amount of $330.0 million (US $226.6 million) of fixed rate loans receivable which have been swapped to a variable rate (see note 18 a)).

3. FINANCE RECEIVABLES AND OTHER (cont'd)

BC loans receivable are as follows:

	1998			1997		
	$	**Weighted average rate**	**Maturity**	$	Weighted average rate	Maturity
Canada	**162.9**	**7.6%**	**2006**	60.2	8.9%	2006
United States	**583.5**	**9.8%**	**2003**	247.1	9.0%	2003
Total	**746.4**			307.3		

Recreational product loans

Recreational product loans relate mainly to the financing of recreational products to consumers, who in turn provide BC with a security interest in the products being financed. The average financing term of such loans is 52 months and the portfolio bears interest at a weighted average rate of 13.9% as at January 31, 1998.

Assets under operating leases

Bombardier assets under operating leases consist of aircraft leased for a period up to 2006.

BC assets under operating leases consist of railcars, aircraft and general equipment leased for a period up to 2006.

Net investment in direct financing leases

The financing terms of the net investment in direct financing leases generally range from 2 to 9 years. The portfolio bears interest at an average rate of 8.8% as at January 31, 1998 (8.6% as at January 31, 1997).

Credit risk of finance receivables and other

The portfolio of finance receivables and other under management, **including those sold under securitization agreements,** is concentrated as follows:

	1998							
	Canada		**United States**		**Other**		**Total**	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Inventory finance	**247.3**	**31**	**1 437.1**	**47**	**61.6**	**12**	**1 746.0**	**40**
Commercial and industrial finance	**516.2**	**64**	**1 081.9**	**36**	**455.8**	**88**	**2 053.9**	**48**
Consumer finance	**6.3**	**1**	**98.4**	**3**	**—**	**—**	**104.7**	**2**
Mortgage finance	**—**	**—**	**406.8**	**13**	**—**	**—**	**406.8**	**9**
Technology management and finance	**35.0**	**4**	**10.6**	**1**	**—**	**—**	**45.6**	**1**
Total	**804.8**	**100**	**3 034.8**	**100**	**517.4**	**100**	**4 357.0**	**100**

	1997							
	Canada		United States		Other		Total	
	$	%	$	%	$	%	$	%
Inventory finance	216.1	44	1 522.3	78	39.5	11	1 777.9	64
Commercial and industrial finance	275.4	56	427.1	22	315.0	89	1 017.5	36
Total	491.5	100	1 949.4	100	354.5	100	2 795.4	100

No single customer represents more than 10% of finance receivables and other as at January 31, 1998 and 1997.

4. INVENTORIES

	1998	1997
Raw materials and work in process	**$ 221.6**	$ 197.3
Contracts and programs	**5 748.9**	4 778.6
Finished products	**789.9**	473.2
	6 760.4	5 449.1
Advances and progress billings	**(2 969.5)**	(1 993.9)
Total net	**$ 3 790.9**	$ 3 455.2

For programs under commercial production (Challenger 604, Canadair Regional Jet Series 100 and 200, Canadair 415, Learjet 60 and Dash 8 Series 100, 200 and 300), non-recurring and excess over average production costs accumulated in programs of $661.3 million as at January 31, 1998 ($736.8 million as at January 31, 1997) have yet to be recovered from future customers' orders.

For programs under development (Global Express, Dash 8 Series 400, Canadair Regional Jet Series 700 and Learjet 45), non-recurring and excess over average production costs amount to $1 053.8 million as at January 31, 1998 ($799.9 million as at January 31, 1997). The total amount of non-recurring and excess over average production costs to be recovered from future customer orders will be determined only upon completion of the development phase of the programs.

Anticipated proceeds from future sales of aircraft for each program exceed the related costs in inventory as at January 31, 1998 and 1997, plus the estimated additional non-recurring and production costs still to be incurred for each program. However, substantial amounts of unrecoverable costs may eventually be charged to expense in subsequent years, if fewer than the program quantity of aircraft are sold, the proceeds from future sales of aircraft are lower than those currently estimated, or the costs to be incurred to complete the programs exceed current estimates.

Under various agreements in the aerospace segment, rights resulting from work performed under certain manufacturing contracts are sold, subject to certain conditions, on an ongoing basis to unrelated entities. The amounts received from the sale of rights, totalling $650.8 million as at January 31, 1998 ($506.9 million as at January 31, 1997), are accounted for as advances received and deducted from inventories until delivery of the underlying units. However, in accordance with industry practice, the Corporation remains liable to the purchasers of the rights for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications, timely delivery and product performance. The Corporation has also provided recourse in US dollars for certain losses that could arise from the sale of rights, for an amount of CDN $33.5 million as at January 31, 1998 (CDN $26.5 million as at January 31, 1997).

In December 1997, the Corporation entered into an agreement with a third party whereby the Corporation will (i) as an agent for the third party, manufacture production line tooling and incur engineering development expenditures, including related software development costs (the "Equipment") and (ii) lease from this third party such Equipment under the terms of an operating lease agreement, for use in the future production of the Canadair Regional Jet Series 700 fuselage and nacelle. The Corporation remains liable for the usual contractor's obligations relating to contract completion in accordance with predetermined specifications and timely delivery in January 2001. As at January 31, 1998, interest-bearing advances totalling $91.5 million have been received in connection with this agreement and have been deducted from the related accumulated construction costs.

Under certain contracts, title to inventories is vested in the customer as the work is performed in accordance with contractual arrangements and industry practice. In addition, in the normal conduct of its operations, the Corporation provides bank guarantees and other forms of guarantees to customers, mainly in the transportation segment, as security for advances received from customers pending performance under certain contracts, amounting to $3 293.9 million as at January 31, 1998 and maturing in different periods up to 2004.

5. FIXED ASSETS

1998	**Cost**	**Accumulated depreciation**	**Net book value**
Bombardier			
Land	**$ 134.8**	**$ —**	**$ 134.8**
Buildings	**1 049.5**	**311.3**	**738.2**
Equipment	**1 468.3**	**848.8**	**619.5**
Other	**117.5**	**35.9**	**81.6**
	2 770.1	**1 196.0**	**1 574.1**
BC			
Office buildings leased to Bombardier	**71.3**	**8.1**	**63.2**
Equipment	**18.2**	**8.8**	**9.4**
	89.5	**16.9**	**72.6**
Total	**$ 2 859.6**	**$ 1 212.9**	**$ 1 646.7**

1997	Cost	Accumulated depreciation	Net book value
Bombardier			
Land	$ 39.1	$ —	$ 39.1
Buildings	763.6	299.6	464.0
Equipment	1 318.2	733.7	584.5
Other	79.4	28.2	51.2
	2 200.3	1 061.5	1 138.8
BC			
Office buildings leased to Bombardier	61.7	6.1	55.6
Equipment	11.2	5.6	5.6
	72.9	11.7	61.2
Total	$ 2 273.2	$ 1 073.2	$ 1 200.0

The Corporation leases buildings and equipment under long-term operating leases for which the total minimum lease payments amount to $384.6 million. The annual minimum lease payments for the next five years are as follows: 1999 – $78.4 million; 2000 – $59.4 million; 2001 – $43.8 million; 2002 – $35.2 million and 2003 – $26.5 million.

6. OTHER ASSETS

	1998	1997
Bombardier		
Investment in Eurotunnel share units, at cost	**$ 50.0**	$ 50.0
Deferred loss on translation of long-term debt	**2.8**	4.9
Prepaid expenses	**38.2**	26.2
Goodwill	**53.6**	67.6
Other	**37.6**	34.9
	182.2	183.6
BC		
Prepaid expenses	**3.5**	1.4
Land held for development	**41.6**	44.6
Deferred income taxes	**13.8**	—
	58.9	46.0
Reclassification (note 9)	**(13.8)**	—
Total	**$ 227.3**	$ 229.6

7. SHORT-TERM BORROWINGS

	1998	1997
Bombardier		
Notes payable	**$ 330.0**	$ —
Current portion of long-term debt	**87.7**	167.4
	417.7	167.4
BC		
Bank loans	**1 844.7**	1 233.1
Current portion of long-term debt	**3.2**	1.9
	1 847.9	1 235.0
Total	**$ 2 265.6**	$ 1 402.4

Bombardier

Bombardier has entered into variable rate credit agreements in various currencies totalling $1 544.3 million as at January 31, 1998 ($772.6 million as at January 31, 1997), most of which can be drawn either in US or Canadian dollars, with financial institutions in countries where it maintains operations.

The notes payable are part of Facility Agreements totalling $466.0 million (US $320.0 million) as at January 31, 1998. These agreements are specifically used to facilitate the financing of regional aircraft sales and related components. These notes payable have mostly been drawn by year-end 1998, are payable on demand and bear interest at LIBOR plus 0.40% (6.08% as at January 31, 1998).

BC

BC has entered into variable rate credit agreements in various currencies totalling $1 966.9 million as at January 31, 1998 ($1 384.9 million as at January 31, 1997), most of which can be drawn either in US or Canadian dollars, with financial institutions in countries where it maintains operations.

The bank loans and related floating weighted average interest rates as at January 31, 1998 and 1997 are as follows:

	Bank loans		Weighted average rate	
Currency	**1998**	1997	**1998**	1997
CDN $	**$ 341.8**	$ 278.9	**4.7%**	3.5%
US $	**1 428.3 (US $980.8)**	954.2 (US $708.2)	**5.9%**	5.6%
Other	**74.6**	—	**3.8%**	—
Total	**$ 1 844.7**	$ 1 233.1		

Under banking syndicate agreements, Bombardier Inc. and certain of its subsidiaries must maintain certain financial ratios which have been met as at January 31, 1998 and 1997.

8. LONG-TERM DEBT

	1998	1997
Bombardier		
Debentures, 6.4%, maturing in December 2006, with a nominal value of $150.0 million (note 18 a))	**$ 150.0**	$ 150.0
Debentures, 7.35%, maturing in December 2026, with a nominal value of $150.0 million (note 18 a))	**150.0**	150.0
Promissory note, 7%, repayable with annual principal repayments of $4.9 million from 2003 to 2012, reimbursable in anticipation under certain conditions	**49.0**	49.0
Notes, 6.58%, maturing in January 2006, with a nominal value of US $150.0 million	**218.4**	202.1
Debentures, 8.3%, maturing in July 2003, with a nominal value of $150.0 million	**150.0**	150.0
Notes subject to a sinking fund, maturing in September 2003, with a nominal value of US $51.8 million as at January 31, 1998 (US $56.1 million as at January 31, 1997) at 6.08%, and a nominal value of US $26.6 million as at January 31, 1998 (US $31.0 million as at January 31, 1997) at 6.32%	**114.2**	117.4
Debentures, 11.1%, maturing in May 2001, with a nominal value of $100.0 million	**100.0**	100.0
Term loan, LIBOR plus 0.5% (6.06% as at January 31, 1997), with a nominal value of US $75.0 million, reimbursed in August 1997	**—**	101.0
Convertible notes – debt component, representing the contractual interest payment, discounted at an average rate of 8.57% (note 10)	**32.5**	45.7
Notes, 6.94%, maturing in June 2000, with a nominal value of US $50.0 million	**72.8**	67.4
Other loans bearing interest at a weighted average rate of 6.3% as at January 31, 1998 (7.2% as at January 31, 1997), payable in various currencies, maturing from 1999 to 2010	**167.9**	268.1
	1 204.8	1 400.7
Amounts due within one year	**87.7**	167.4
Total Bombardier	**1 117.1**	1 233.3
BC		
Capital Trust Securities, maturing in June 2032, with a nominal value of US $200.0 million, LIBOR plus 0.55% (6.23% as at January 31, 1998) until 2003 and LIBOR plus 1.55% thereafter, unless remarketed as a Junior fixed rate Subordinated Security	**291.3**	—
Loan, 7.41%, maturing in July 2001, with a nominal value of US $50.0 million (note 18 a))	**72.8**	67.4
Mortgage bonds, 7.54% to 11%, maturing from 2001 to 2016	**61.7**	56.1
Other loans bearing interest at a weighted average rate of 8.9% as at January 31, 1998, payable in US dollars, maturing from 2003 to 2007	**9.0**	—
	434.8	123.5
Amounts due within one year	**3.2**	1.9
Total BC	**431.6**	121.6
Total	**$ 1 548.7**	$ 1 354.9

8. LONG-TERM DEBT (cont'd)

The repayment requirements on the long-term debt during the next five years are as follows:

	Bombardier Inc. consolidated	Bombardier	BC
1999	$ 90.9	$ 87.7	$ 3.2
2000	43.7	40.2	3.5
2001	117.8	114.2	3.6
2002	208.3	132.8	75.5
2003	37.9	31.3	6.6

As at January 31, 1998 and 1997, the Corporation has complied with the restrictive convenants contained in the various financing agreements.

9. OTHER LIABILITIES

	1998	1997
Bombardier		
Income taxes payable	**$ 46.6**	$ 55.7
Provision for pension costs	**82.8**	119.9
Deferred income taxes	**231.4**	77.8
	360.8	253.4
BC		
Income taxes payable	**10.0**	10.2
Deferred income taxes	**—**	0.8
	10.0	11.0
Reclassification (note 6)	**(13.8)**	—
Total	**$ 357.0**	$ 264.4

10. CONVERTIBLE NOTES

The convertible notes amounting to US $165.0 million and maturing in October 2004 are unsecured and bear interest at LIBOR plus 0.85% (6.76% as at January 31, 1998 and 6.48% as at January 31, 1997) to October 1999 and thereafter at LIBOR plus 1.25%.

In October 1999, these notes are redeemable at their nominal value at the option of the Corporation or of the holders. The Corporation may, at its option, repay the convertible notes in 1999 and 2004 in cash or with Class B Subordinate Voting Shares of the Corporation at market value.

These convertible notes are presented as follows:

	1998	1997
Convertible notes – debt component	**$ 32.5**	$ 45.7
Convertible notes – equity component	**165.8**	152.3

11. SHARE CAPITAL

The articles of Bombardier Inc. authorize it to issue shares consisting of:

Preferred shares

An unlimited number of preferred shares, without nominal or par value, issuable in series, of which the following series have been authorized (Series 2 and 3 authorized in 1998):

Series 1 Cumulative Redeemable Preferred Shares without nominal or par value, non-voting, redeemable at the Corporation's option at $25.00 per share. The quarterly dividend rate was equal to the greater of (i) 1.875% and (ii) one-quarter of 75% of the average of the prime rates of three designated major Canadian banks for specified three-month periods. All the Series 1 shares were redeemed and cancelled on June 30, 1997;

11. SHARE CAPITAL (cont'd)

12 000 000 Series 2 Cumulative Redeemable Preferred Shares, non-voting, redeemable at the Corporation's option at $25.00 per share on August 1, 2002 or at $25.50 per share thereafter, convertible on a one-for-one basis on August 1, 2002 and on August 1 of every fifth year thereafter into Series 3 Cumulative Redeemable Preferred Shares. On a conversion date, if the Corporation determines after having taken into account all shares tendered for conversion by holders that there would be less than 1 000 000 outstanding Series 2 Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 3 Preferred Shares. Additionally, if the Corporation determines that on any conversion date, there would be less than 1 000 000 outstanding Series 3 Preferred Shares, then no Series 2 Preferred Shares may be converted. Until July 31, 2002, the quarterly dividend rate is equal to $0.34375 per share. Thereafter, floating adjustable cumulative preferential cash dividends will be payable monthly, if declared, commencing on August 1, 2002, with the annual floating dividend rate equal to 80% of the Canadian prime rate. The dividend rate will float in relation to changes in the prime rate and will be adjusted upwards or downwards on a monthly basis to a monthly maximum of 4% if the trading price of the Series 2 Preferred Shares is less than $24.90 per share or more than $25.10 per share; and

12 000 000 Series 3 Cumulative Redeemable Preferred Shares, non-voting, redeemable at the Corporation's option at $25.00 per share on August 1, 2007 and on August 1 of every fifth year thereafter, convertible on a one-for-one basis at the option of the holder on August 1, 2007 and on August 1 of every fifth year thereafter into Series 2 Cumulative Redeemable Preferred Shares. On a conversion date, if the Corporation determines after having taken into account all shares tendered for conversion by holders that there would be less than 1 000 000 outstanding Series 3 Preferred Shares, such remaining number shall automatically be converted into an equal number of Series 2 Preferred Shares. Additionally, if the Corporation determines that on any conversion date there would be less than 1 000 000 outstanding Series 2 Preferred Shares, then no Series 3 Preferred Shares may be converted. The initial dividend, if declared, will be payable on October 31, 2002 and the quarterly dividend rate will be fixed by the Corporation at least 45 days before the initial dividend, for the first five-year period. Each five-year fixed dividend rate selected by the Corporation shall not be less than 80% of the Government of Canada bond yield as defined in the Articles of Amendment creating the Series 3 Preferred Shares.

Common shares

448 000 000 Class A Shares (multiple voting), without nominal or par value, ten votes each, convertible at the option of the holder into one Class B Subordinate Voting Share; and

448 000 000 Class B Subordinate Voting Shares, without nominal or par value, one vote each, with an annual non-cumulative preferential dividend of $0.00625 per share, and convertible, at the option of the holder, into one Class A Share (multiple voting), after the occurrence of one of the following events: (i) an offer made to Class A Share (multiple voting) shareholders is accepted by the present controlling shareholder (the Bombardier family); (ii) such controlling shareholder ceases to hold more than 50% of all outstanding Class A Shares (multiple voting) of the Corporation.

12. SHARE OPTION PLAN

Under a share option plan, options are granted to key employees to purchase Class B Subordinate Voting Shares. As at January 31, 1998, 19 000 000 Class B Subordinate Voting Shares were reserved for issuance under the share option plan. The exercise price is equal to the average of the closing prices on the stock exchanges during the five trading days preceding the date on which the option was granted. The right to exercise these options, which vest at 25% per year during a period commencing two years following the date of granting, terminates no later than ten years after such date. As at January 31, 1998, 5 326 085 options are vested (5 172 948 options as at January 31, 1997). The number of options issued and outstanding at year-end is as follows:

Granting period	**Exercise price (dollars)**	**1998**	1997
1988	2.43 to 3.10	**—**	40 000
1990	3.06 to 3.94	**2 550 000**	2 550 000
1991	3.54 to 3.83	**238 000**	268 000
1992	6.23 to 7.63	**15 000**	95 000
1993	5.59 to 8.25	**1 665 000**	1 848 000
1994	5.05 to 8.50	**705 000**	1 002 500
1995	10.24 to 12.29	**1 125 587**	1 330 793
1996	12.69 to 17.28	**270 000**	290 000
1997	18.72 to 20.53	**3 026 000**	3 161 000
1998	26.02 to 31.15	**1 484 800**	—
		11 079 387	10 585 293

12. SHARE OPTION PLAN (cont'd)

The number of share options has varied as follows:

	1998	1997
Balance at beginning of year	**10 585 293**	9 189 330
Granted	**1 512 500**	3 386 000
Exercised	**(794 164)**	(1 508 454)
Cancelled	**(224 242)**	(481 583)
Balance at end of year	**11 079 387**	10 585 293

13. DEFERRED TRANSLATION ADJUSTMENTS

	1998	1997
Balance at beginning of year	**$ 65.1**	$ 42.6
Translation adjustments	**130.1**	5.3
Translation adjustments on debt designated as a hedge of self-sustaining foreign operations	**(58.9)**	17.2
Balance at end of year	**$ 136.3**	$ 65.1

14. COST OF SALES AND OPERATING EXPENSES

Bombardier's cost of sales and operating expenses include research expenses, excluding those incurred under contract, amounting to $115.2 million ($131.2 million in 1997), net of various participative programs and related income tax credits.

15. INTEREST EXPENSE

	1998		1997 (restated – note 22)	
	Bombardier	**BC**	Bombardier	BC
Interest on long-term debt	**$ 89.9**	**$ 38.3**	$ 65.5	$ 33.3
Interest on short-term borrowings	**25.2**	**89.4**	24.4	61.0
Interest income	**(28.4)**	**—**	(23.6)	—
	86.7	**127.7**	66.3	94.3
Classified as cost of sales and operating expenses	**—**	**(127.7)**	—	(94.3)
Total	**$ 86.7**	**$ —**	$ 66.3	$ —

16. INCOME TAXES

The effective income tax rate differs from the Canadian statutory rates for the following reasons:

	1998		1997	
	$	**%**	$	%
Income taxes calculated at statutory rates	**244.0**	**38.9**	234.8	38.7
Increase (decrease) resulting from:				
Manufacturing and processing credit	**(28.0)**	**(4.5)**	(31.2)	(5.1)
Net income taxes of foreign investees	**(7.0)**	**(1.1)**	0.6	—
Non-recognition of tax benefits related to foreign investees' losses	**15.4**	**2.5**	22.7	3.7
Recovery of income taxes arising from the use of unrecorded tax benefits	**(45.6)**	**(7.3)**	(19.1)	(3.1)
Tax-exempt items	**14.5**	**2.3**	(7.8)	(1.2)
Other	**13.7**	**2.2**	0.1	—
Total	**207.0**	**33.0**	200.1	33.0
Current income taxes	**62.8**		124.8	
Deferred income taxes	**144.2**		75.3	
Total	**207.0**		200.1	

16. INCOME TAXES (cont'd)

Losses carried forward and other deductions for which no tax benefits have been recorded in the accounts, which are available to reduce future taxable income of certain European subsidiaries, amount to $921.0 million as at January 31, 1998 ($615.0 million as at January 31, 1997), with no specified expiry date.

17. NET CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

The net changes in non-cash balances related to operations are as follows:

	1998	1997
Bombardier		
Accounts receivable	**$ (158.0)**	$ 90.6
Inventories	**(323.2)**	(861.1)
Accounts payable and accrued liabilities	**119.5**	244.6
Income taxes payable	**(9.2)**	31.2
Advances and progress billings in excess of related costs	**48.7**	295.7
	(322.2)	(199.0)
BC		
Accounts payable and accrued liabilities	**(13.9)**	3.3
Income taxes payable	**(0.2)**	(16.7)
	(14.1)	(13.4)
Total	**$ (336.3)**	$ (212.4)

18. FINANCIAL INSTRUMENTS

a) Derivative financial instruments

The Corporation uses derivative financial instruments to manage foreign exchange risk and to reduce the impact of interest rate fluctuations on certain financial instruments. The Corporation does not trade in derivatives for speculative purposes.

Foreign exchange contracts

The Corporation enters into foreign exchange contracts to hedge future net cash flows in US dollars by fixing the US dollar value relative to the Canadian dollar, pound sterling (for the benefit of a United Kingdom subsidiary) and Austrian schilling (for the benefit of an Austrian subsidiary). Under these contracts, the Corporation is obliged to sell mainly specific amounts of US dollars for Canadian dollars, pounds sterling and Austrian schillings at predetermined dates and exchange rates. These contracts are matched with anticipated US dollar net cash flows. The amounts of anticipated future net cash flows in US dollars are projected in light of current conditions in the Corporation's markets, existing orders from customers and the Corporation's past experience.

The following table sets out the Canadian dollar, pound sterling and Austrian schilling amounts to be received pursuant to the principal foreign exchange contracts, the average contractual exchange rates and the settlement periods of these sales contracts:

	Average exchange rate	
	1998	1997
Less than one year		
US $2 139.1 million (1997 – US $1 676.5 million) for Canadian dollars	**$ 1.34**	$ 1.36
US $90.5 million (1997 – US $139.5 million) for pounds sterling	**£ 0.66**	£ 0.64
US $134.9 million (1997 – US $177.0 million) for Austrian schillings	**ATS 11.44**	ATS 10.53
One to two years		
US $1 140.9 million (1997 – US $694.5 million) for Canadian dollars	**$ 1.36**	$ 1.35
US $42.5 million (1997 – US $45.5 million) for pounds sterling	**£ 0.66**	£ 0.67
Two to three years		
US $747.3 million (1997 – US $194.8 million) for Canadian dollars	**$ 1.35**	$ 1.37
US $7.5 million (1997 – US $42.5 million) for pounds sterling	**£ 0.69**	£ 0.66
More than three years		
US $9.0 million (1997 – US $57.1 million) for Canadian dollars	**$ 1.31**	$ 1.32

18. FINANCIAL INSTRUMENTS (cont'd)

Interest-rate swap agreements

Bombardier

During 1998, Bombardier entered into interest-rate swap agreements to convert $330.0 million (US $226.6 million) of fixed rate loans receivable into floating rate loans receivable established at LIBOR (5.68% as at January 31, 1998) with terms expiring through 2014.

Effective February 10, 1997, Bombardier entered into interest-rate swap agreements with two different financial institutions for a total nominal value of $300.0 million, whereby the Corporation received a fixed interest rate of 4.55% and paid semi-annually a variable interest rate established at bankers' acceptance rates. These interest-rate swap agreements were cancelled on December 18, 1997.

BC

BC entered into an interest-rate swap agreement for a nominal value of $40.0 million (US $27.5 million) whereby BC will receive a fixed interest rate of 7.04% through July 2001 and will pay a variable interest rate established at LIBOR (5.68% as at January 31, 1998). In addition, BC has interest-rate swap agreements which have the effect of converting $414.2 million (US $284.4 million) of fixed rate loans receivable and assets under operating leases into floating rate loans receivable and assets under operating leases, at a weighted average rate of 5.88% as at January 31, 1998, with terms expiring through 2010.

b) Fair value of financial instruments

The carrying amounts and fair values of financial instruments, other than those disclosed elsewhere in these consolidated financial statements, are as follows:

	1998		1997	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
Bombardier Inc. consolidated				
Financial assets				
Cash and term deposits	**1 227.7**	**1 227.7**	895.7	895.7
Accounts receivable	**693.2**	**693.2**	358.4	358.4
Finance receivables and other	**2 683.0**	**2 693.0**	1 461.0	1 463.1
Investment in Eurotunnel share units	**50.0**	**42.1**	50.0	50.5
Financial liabilities				
Short-term borrowings	**2 265.6**	**2 265.6**	1 402.4	1 402.4
Accounts payable and accrued liabilities	**2 663.0**	**2 663.0**	2 124.6	2 124.6
Income taxes payable	**56.6**	**56.6**	65.9	65.9
Long-term debt	**1 548.7**	**1 632.7**	1 354.9	1 367.4
Off-balance-sheet				
Foreign exchange contracts				
– favourable	**—**	**17.5**	—	100.0
– unfavourable	**—**	**(387.1)**	—	(39.5)
Interest-rate swap agreements				
– favourable	**—**	**2.0**	—	0.2
– unfavourable	**—**	**(10.4)**	—	(1.4)

The following methods and assumptions were used in estimating the fair value of financial instruments:

Cash and term deposits, accounts receivable, short-term borrowings, accounts payable and accrued liabilities and income taxes payable: The carrying amounts reported in the balance sheet approximate the fair values of these items due to their short-term nature.

Finance receivables and other: The carrying amounts of finance receivables and other exclude assets under operating leases. The fair values of floating rate finance receivables and other that reprice frequently and have no significant change in credit risk approximate the carrying values. The fair values of fixed rate finance receivables and other are estimated using discounted cash flow analyses, using interest rates offered for loans with similar terms to borrowers of similar credit quality.

Investment in Eurotunnel share units: The fair value of the investment in Eurotunnel share units is estimated using the quoted market price.

Long-term debt: The fair values of long-term debt are estimated using public quotations or discounted cash flow analyses, based on current corresponding borrowing rates for similar types of borrowing arrangements.

18. FINANCIAL INSTRUMENTS (cont'd)

Foreign exchange contracts and interest-rate swap agreements: The fair values generally reflect the estimated amounts that the Corporation would receive on settlement of favourable contracts or be required to pay to terminate unfavourable contracts at the reporting dates, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealers' quotes or quotes from the Corporation's bankers are available for substantially all of the Corporation's foreign exchange contracts and interest-rate swap agreements.

Credit support and guarantees: The determination of the fair values of bank guarantees and other forms of guarantees related to long-term contracts is not practicable within constraints of timeliness and cost but such guarantees usually decrease in value in relation to the percentage of completion of the related contracts and usually expire without being exercised. The fair values of credit support and guarantees provided to purchasers of manufactured products are not determinable due to a lack of reliable evidence.

c) Credit risk

In addition to the credit risk described elsewhere in these consolidated financial statements, the Corporation is subject to risk related to the off-balance-sheet nature of derivative financial instruments, whereby counterparty failure would result in economic losses on favourable contracts. However, the counterparties to these derivative financial instruments are major financial institutions which the Corporation anticipates will satisfy their obligations under the contracts.

The Corporation is also subject to credit risk related to a loan of securities maturing in February 1998. However, such risk is covered by letters of credit issued by Canadian banks amounting to $55.6 million (US $38.2 million) and representing more than 105% of the fair value of the loaned securities.

19. PENSION PLANS

The Corporation maintains defined benefit pension plans which provide pension benefits based on length of service and final pensionable earnings.

Pension assets consist principally of equities, government and corporate bonds and real estate of countries where the Corporation operates. Pension expense is based on Management's best estimate of the long-term rate of return on the pension asset portfolio (8% to 9.25%). Pension benefit obligations are determined based on Management's best estimate of long-term salary escalation rates (4.5% to 5.5%) and are discounted based on Management's best estimate of long-term interest rates (7.25% to 8.5%). Variances between such estimates and actual experience, which may be material, are amortized over the employee group's average remaining service life (10 to 18 years).

The Corporation bears the risk of experience loss against the above long-term assumptions. The maximum risk of loss is equal to the difference between the fair value of the pension benefit obligation and the amount of the pension benefit obligation accrued in the financial statements. Should actual experience differ from the experience assumed, future contributions will be adjusted to make up for any variances. Risk is managed by placing plan assets in trust and through the pension plan investment policy which defines the funds' allowable investments. The Corporation's ability to withdraw surplus amounts is uncertain. Therefore, the excess, if any, of plan assets over the fair value of accrued benefits may not be immediately available to the Corporation.

The present value of accrued pension benefits attributed to services rendered up to the balance sheet dates and the net assets available to provide for these benefits, at market-related values, are as follows:

	1998	1997
Pension fund assets	**$ 2 059.4**	$ 1 702.9
Accrued pension benefits	**1 611.1**	1 431.1

20. COMMITMENTS AND CONTINGENCIES

In addition to the commitments and contingencies described elsewhere in these consolidated financial statements, the Corporation is subject to the following:

a) In connection with the sale of aircraft, the Corporation occasionally provides financial support to its customers in the form of guarantees of financing, lease payments as well as services related to the remarketing of aircraft. The off-balance-sheet risk from these guarantees related to aircraft sold, maturing in different periods up to 2015, is as follows as at January 31, 1998 and 1997:

	1998	1997
Maximum credit risk related to guarantees provided	**$ 499.8**	$ 404.0
Less: provisions recorded	**198.1**	115.0
Off-balance-sheet risk	**301.7**	289.0
Less: Corporation's share of estimated net resale value of aircraft	**237.5**	215.0
Net credit risk	**$ 64.2**	$ 74.0

The net credit risk represents the unrecorded portion of the Corporation's estimated exposure to losses from defaults of third-party purchasers to meet their financial obligations under legally binding agreements.

As at January 31, 1998, the Corporation is also committed in relation to guarantees on future sales of aircraft for an amount of $129.6 million net of the Corporation's share of the estimated net resale value of aircraft amounting to $38.1 million ($109.2 million net of the Corporation's share of the estimated net resale value of aircraft amounting to $42.2 million as at January 31, 1997). The provision in relation to these guarantees, if any, will be recorded at the delivery date of the corresponding aircraft.

Substantially all financial support involving potential credit risk is with commercial airline customers. No single commercial airline customer is associated with more than 15% of all financial support relating to customer financing as at January 31, 1998 and 1997.

At the expiry date of certain financing and lease agreements, the Corporation has provided guarantees of the residual value of aircraft. The guarantees can only be called upon if the above guarantees of financing and lease payments have not been exercised. However, in the event that residual value guarantees are exercised, it is Management's opinion that the net resale value of the underlying aircraft will be sufficient to cover the Corporation's exposure under these guarantees.

In addition, the Corporation concluded sale and leaseback transactions in respect of aircraft and railcars under which it is obligated to pay annual rents, and most of this equipment was simultaneously leased to operators. Details of these transactions are as follows:

	Minimum lease payments		**Expected receipts**		**Provision recorded**	
	1998 $	1997 $	**1998 $**	1997 $	**1998 $**	1997 $
1998	**—**	207.1	**—**	206.3	**—**	0.8
1999	**148.6**	84.9	**145.2**	77.9	**3.4**	7.0
2000	**85.5**	51.2	**81.7**	44.2	**3.8**	7.0
2001	**38.3**	13.2	**32.6**	11.2	**5.7**	2.0
2002	**32.9**	13.2	**32.6**	12.7	**0.3**	0.5
2003	**49.8**	13.2	**48.8**	11.6	**1.0**	1.6
Thereafter	**228.1**	72.7	**208.5**	54.5	**19.6**	18.2
	583.2	455.5	**549.4**	418.4	**33.8**	37.1

Expected receipts include expected minimum sub-lease rentals from operators and the Corporation's share of the estimated net resale value of the equipment. Expected minimum sub-lease rentals from operators include the amounts from contracted and anticipated sub-leases. The amounts for anticipated sub-leases ($298.7 million in 1998 and $125.7 million in 1997) have been calculated taking into account current and expected future market conditions for each type of equipment. The total amount of the Corporation's share of the estimated net resale value of the equipment included in the expected receipts is $156.2 million in 1998 and $247.9 million in 1997.

20. COMMITMENTS AND CONTINGENCIES (cont'd)

The Corporation's share of the estimated net resale value, used in the calculation of the net credit risk related to the guarantees provided on sales of aircraft and in the expected receipts in relation to sale and leaseback transactions of equipment, represents the anticipated fair values based upon analyses done by third parties.

b) The Corporation is the defendant in certain legal cases presently pending before various courts in relation to product liability. The Corporation is also party to several actions associated with waste disposal sites. These actions include possible obligations to remove wastes deposited at various sites or mitigate their negative effects on the environment. There are also some asbestos-related claims to compensate railway workers for various diseases which allegedly result from their workplace exposure to asbestos materials relating to past business involving locomotives.

The Corporation intends to vigorously defend its position in these matters. Management believes the Corporation has set up adequate provisions to cover potential losses and amounts not recoverable under insurance coverage, if any, in relation to these legal actions.

21. RECLASSIFICATION

Certain of the 1997 figures have been reclassified to conform to the presentation adopted in 1998.

22. SEGMENT DISCLOSURES

In 1998, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning segment disclosures. The 1997 figures have been restated to conform with this new presentation which includes a change in the allocation of the interest expense and the Corporate Office charges. Consequently, an allocation of the above-mentioned expenses is now made to BC. The effect of this change was to decrease the net income of BC by $11.7 million and to increase the net income of the other segments by the same amount for the year ended January 31, 1998 ($7.2 million for 1997).

The Corporation operates in the five reportable segments described below. Each reportable segment offers different products and services, requires different technology and marketing strategies and is headed by a president and chief operating officer.

The aerospace segment is engaged in the design, manufacture and sale of business and regional aircraft for individuals, corporations as well as commercial airline customers. It is also engaged in the manufacture of major airframe components for aircraft designed and built by other American and European aircraft manufacturers.

The recreational products segment is responsible for developing, manufacturing and marketing snowmobiles, watercraft, boats, neighborhood vehicles, all-terrain vehicles and engines.

The transportation segment is engaged in the design, manufacture, sale and maintenance of transit vehicles for urban, suburban, intercity rail-passenger transportation and freight cars, as well as integrated rail transit systems for turnkey projects.

The services segment provides commercial and military aviation services, including technical services, aircraft modification and training. It is also engaged in the design, manufacture, sale and maintenance of utility vehicles.

The capital segment (BC) includes financial and real estate services. The financial activities are in five specific markets: inventory financing on a secured basis; asset-based financing to commercial customers with respect to various commercial and industrial equipment, new or trade-in aircraft and open accounts receivable; consumer finance operations; mortgage financing to purchasers of manufactured homes; and leasing and technology management services. The real estate activities of this segment consist of selling land to real estate developers and renting office buildings to Bombardier.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. The Corporation evaluates performance based on income or loss before income taxes. Intersegment services are accounted for as if the services were to third parties, at current market prices. The interest costs are allocated to the segments based on the net assets of each segment. Corporate Office charges are allocated based on the revenues of each segment.

The net segmented assets are used to assess the resources utilized by each segment. For all manufacturing segments, net assets include accounts receivable, finance receivables and other, inventories, fixed assets and a portion of other assets, less accounts payable and accrued liabilities and advances and progress billings in excess of related costs.

For BC, the measure used to evaluate the resources utilized is the amount of investment in BC, and consequently this amount is shown as a segmented asset for BC.

(millions of Canadian dollars)

	Bombardier Inc. consolidated	
	1998	1997
INDUSTRY SEGMENTS		
External revenues	**$ 8 508.9**	$ 7 975.7
Intersegment eliminations	**—**	—
Revenues	**8 508.9**	7 975.7
Expenses		
Cost of sales and operating expenses	**7 614.9**	7 137.3
Depreciation and amortization	**180.1**	165.8
Interest expense	**86.7**	66.3
	7 881.7	7 369.4
Income before income taxes	**$ 627.2**	$ 606.3
Net segmented assets	**$ 3 641.9**	$ 2 925.7
Accounts payable and accrued liabilities	**2 543.7**	1 993.0
Advances and progress billings in excess of related costs	**851.6**	591.4
Cash and term deposits	**1 090.2**	889.1
Other assets	**52.8**	51.9
Total assets – Bombardier	**8 180.2**	6 451.1
Investment in BC	**(353.3)**	(288.7)
Deferred income taxes	**(13.8)**	—
Total assets – BC	**2 762.1**	1 787.9
Total assets – Bombardier Inc. consolidated	**$ 10 575.2**	$ 7 950.3
Additions to fixed assets and to goodwill	**$ 262.6**	$ 262.8

	Revenues	
	1998	1997
GEOGRAPHIC INFORMATION		
United States	**$ 3 964.2**	$ 3 711.5
Canada	**961.8**	949.4
France	**698.7**	610.1
United Kingdom	**351.8**	309.7
Belgium	**299.7**	266.5
Malaysia	**291.3**	149.5
Germany	**286.0**	430.5
Austria	**199.8**	228.1
Mexico	**155.3**	45.5
Other – Asia	**468.7**	455.6
Other – Europe	**423.8**	497.5
Other – South and Central America	**215.3**	239.2
Other	**192.5**	82.6
	$ 8 508.9	$ 7 975.7

	Aerospace		Recreational Products		Transportation		Services		BC	
	1998	1997 (restated)	**1998**	1997 (restated)	**1998**	1997 (restated)	**1998**	1997 (restated)	**1998**	1997 (restated)
	$ 4 620.7	$ 4 011.3	**$ 1 632.7**	$ 1 865.6	**$ 1 678.7**	$ 1 596.7	**$ 332.0**	$ 340.5	**$ 244.8**	$ 161.6
	11.3	25.4	**—**	—	**9.4**	2.7	**57.7**	38.3	**107.6**	83.0
	4 632.0	4 036.7	**1 632.7**	1 865.6	**1 688.1**	1 599.4	**389.7**	378.8	**352.4**	244.6
	3 954.2	3 590.6	**1 579.5**	1 607.6	**1 618.3**	1 539.4	**365.4**	355.5	**283.5**	193.6
	87.1	73.0	**37.9**	35.1	**44.4**	48.4	**5.9**	5.2	**4.8**	4.1
	129.2	102.9	**13.9**	10.6	**(59.2)**	(51.3)	**2.8**	4.1	**—**	—
	4 170.5	3 766.5	**1 631.3**	1 653.3	**1 603.5**	1 536.5	**374.1**	364.8	**288.3**	197.7
	$ 461.5	$ 270.2	**$ 1.4**	$ 212.3	**$ 84.6**	$ 62.9	**$ 15.6**	$ 14.0	**$ 64.1**	$ 46.9
	$ 3 552.4	$ 2 904.5	**$ 342.2**	$ 209.4	**$ (688.7)**	$ (538.0)	**$ 82.7**	$ 61.1	**$ 353.3**	$ 288.7
	$ 160.0	$ 166.2	**$ 38.7**	$ 43.7	**$ 40.8**	$ 44.7	**$ 7.9**	$ 5.7	**$ 15.2**	$ 2.5

	Fixed assets and goodwill	
	1998	1997
	$ 206.6	$ 176.5
	739.8	667.8
	48.6	53.4
	181.3	164.0
	28.6	30.6
	—	—
	364.3	91.5
	70.0	63.7
	14.2	12.8
	—	—
	46.9	7.3
	—	—
	—	—
	$ 1 700.3	$ 1 267.6

Divisions and Subsidiaries

Bombardier Aerospace

Bombardier Aerospace
400 Côte-Vertu Road West
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Bombardier Services Corporation
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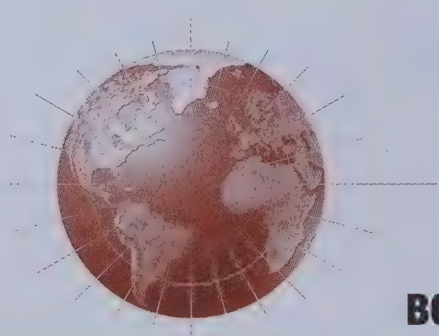

BOMBARDIER

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Board of Directors and Corporate Officers

Board of Directors

Philippe de Gaspé Beaubien, O.C.
Chairman of the Board
Société Gasbeau

Laurent Beaudoin, C.C., FCA
President, Chairman and
Chief Executive Officer
Bombardier Inc.

J.R. André Bombardier
Vice Chairman
Bombardier Inc.

Janine Bombardier
President and Governor
J. Armand Bombardier Foundation

André Desmarais
President and Co-Chief Executive Officer
Power Corporation of Canada

Jean-Louis Fontaine
Vice Chairman
Bombardier Inc.

Hon. Jean-Pierre Goyer, P.C., Q.C.
Lawyer and Corporate Director

Pierre Legrand, Q.C.
Senior Partner
Ogilvy Renault

Hon. Peter Lougheed, P.C., C.C., Q.C.
Senior Partner
Bennett Jones Verchere

Donald C. Lowe
Chairman
Sedgwick Limited

J. Michael G. Scott
President
JM Scott Investments Inc.

Paul M. Tellier
President and Chief Executive Officer
Canadian National

William I.M. Turner, Jr., C.M.
Chairman and Chief Executive Officer
Exsultate Inc.

Hugo Uyterhoeven
Timken Professor of Business
Administration
Graduate School of Business
Administration
Harvard University

Committees of the Board

Executive Committee
Laurent Beaudoin, C.C., FCA
J.R. André Bombardier
Pierre Legrand, Q.C.
Jean-Louis Fontaine
William I.M. Turner, Jr., C.M.

Compensation Committee
Laurent Beaudoin, C.C., FCA
J.R. André Bombardier
André Desmarais
Pierre Legrand, Q.C.
William I.M. Turner, Jr., C.M.

Audit Committee
Jean-Louis Fontaine
Hon. Jean-Pierre Goyer, P.C., Q.C.
Pierre Legrand, Q.C.
J. Michael G. Scott

Pension Fund Committees
The Corporation has nine Pension Fund Committees. Directors who are members of some of these committees are:
Jean-Louis Fontaine
Hon. Jean-Pierre Goyer, P.C., Q.C.
Pierre Legrand, Q.C.

Corporate Officers

Corporate Office

Laurent Beaudoin
President, Chairman and
Chief Executive Officer
Bombardier Inc.

J.R. André Bombardier
Vice Chairman

Jean-Louis Fontaine
Vice Chairman

Yvan Allaire
Executive Vice President, Strategy
and Corporate Affairs

Yvon Beauregard
Vice President, Environment

Richard Bradeen
Vice President, Acquisitions

Roger Carle
Director, Legal Services and
Corporate Secretary

Daniel Desjardins*
Vice President, Legal Services and
Assistant Secretary

Robert Greenhill
Vice President, Strategic Initiatives

Paul H. Larose
Vice President, Finance

François Lemarchand
Vice President and Treasurer

Michel Lord
Vice President, Communications and
Public Relations

Michael P. O'Bree
Vice President, Internal Audit

Barry J. Olivella
Vice President, Acquisitions and
Strategic Alliances

Jean Rivard**
Vice President, Legal Services and
Assistant Secretary

Richard T. Sloan
Vice President and General Manager,
Structured Finance

Michael P. Tinker
Vice President, Human Resources and
Organizational Development

Marie-Claire Simoneau
Executive Assistant to the Chief
Executive Officer

Pierre Beaudoin
President and Chief Operating Officer
Bombardier Recreational Products

Robert E. Brown
President and Chief Operating Officer
Bombardier Aerospace

Anthony I. Kalhok
President and Chief Operating Officer
Bombardier Services

Jean-Yves Leblanc
President and Chief Operating Officer
Bombardier Transportation

Pierre Lortie
President and Chief Operating Officer
Bombardier International

Pierre-André Roy
President and Chief Operating Officer
Bombardier Capital

* Mr. Daniel Desjardins' appointment was effective on April 6, 1998.

** Mr. Jean Rivard retired on May 15, 1998.

Shareholder Information

Bombardier Inc.

Share Capital Authorized and Issued as at January 31, 1998

	Authorized	Issued
Class A shares	448 000 000	88 632 829
Class B shares	448 000 000	250 826 395
Preferred shares, Series 2	12 000 000	12 000 000

On April 21, 1998, Bombardier announced its intention to submit to the meeting of shareholders, which will be held on June 22, 1998, the proposition to split both class A and class B shares on a two-for-one basis. Upon shareholders' approval, the split will be effective for shareholders of record at the close of business, Montréal time, on Friday, July 10, 1998.

Stock Exchange Listings

Class A and B shares	Montréal and Toronto (Canada)
Preferred shares, Series 2	Montréal and Toronto (Canada)
Class B shares	Brussels and Antwerp (Belgium)
Stock listing code	BBD

Incorporation
The Corporation was incorporated in 1902 by letters patent and prorogated June 23, 1978 under the Canadian Business Corporations Act.

Transfer Agent and Registrar
Montréal Trust Company
Halifax, Saint John (N.B.), Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Auditors
Caron Bélanger Ernst & Young
1 Place Ville-Marie
Montréal, Québec
Canada H3B 3M9

Corporate Secretary
Bombardier Inc.
800 René-Lévesque Blvd. West
Montréal, Québec
Canada H3B 1Y8

Annual Meeting
The special and annual meeting of shareholders will be held at the Montréal Sheraton Centre, on Monday, June 22, 1998 at 11:00 a.m.

Duplication
Although we strive to ensure that our registered shareholders only receive one copy of our corporate documents, more specifically the annual report, duplication is unavoidable if titles are registered under different names and addresses. If such is the case, please call the following number: (514) 861-9481, extension 390.

Shareholder and Investor Relations
Shareholders
Annual Report, Annual Information Form and other documents:
Public Relations Department
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Media Relations
For information on Bombardier, contact our Public Relations Department at (514) 861-9481, extension 245.
Bombardier Inc.'s press releases are available on the Internet at the following address:
www.bombardier.com

Web Site
For more information on our products and services, visit our web site at
www.bombardier.com

The cover page and the editorial section of this Annual Report are printed on acid-free and recyclable paper. The financial section is printed on 100% recycled paper containing 75% post-consumer fiber.

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